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Current History

A WORLD AFFAIRS MONTHLY MAY/JUNE, 1979

UNITED STATES TRADE AND FOREIGN POLICY

Current History

FOUNDED IN 1914

MAY/JUNE, 1979
VOLUME 76 NUMBER 447

Current History (ISSN-0011-3530) is published monthly (combined issues May/June and July/August) for $16.75 per year by Current History, Inc., Publication Office, 4225 Main Street, Philadelphia, Pa. 19127; Editorial Office, RR 1, Box 132, Furlong, Pa. 18925. Second class postage paid at Phila., Pa., and additional mailing offices. Postmaster: send address changes to *Current History*, 4225 Main Street, Philadelphia, Pa. 19127. Indexed in *The Reader's Guide to Periodical Literature, The Abridged Reader's Guide, ABC Polsci, PAIS* and *SSCI*. Copies may be secured by writing to the publication office. No responsibility is assumed for the return of unsolicited manuscripts.

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MAY/JUNE, 1979 VOL. 76, NO. 447

How does United States trade policy affect our broader foreign policy goals? How is our trade policy changing? In this issue, seven specialists describe and evaluate American trade patterns and policies. Our introductory article points out that, "As the world's largest trader, the United States exports and imports about 13 percent of the world's total goods. . . . Throughout the United States economy, it is estimated that one of every eight workers in manufacturing makes goods for export. . . . By 1975, 21 percent of all U.S. farm output was exported."

United States Trade Policy: An Overview

BY RONALD I. MELTZER
Assistant Professor of Political Science, State University of New York at Buffalo

TRADE policy has been a basic concern in American economic and political life since the nation's beginning. Historically, United States trade and tariff patterns have mirrored changing levels of development and composition in the United States economy. American trade policy has conformed to the alternating political sway of various domestic economic interests in Congress and to particular fiscal needs. Most United States trade policy has been organized around congressional tariff acts, and American trade policy long reflected congressional responsiveness to local constituency claims.

The limits and costs of this approach, however, became clear in the 1930's, when unilateral tariff increases and other widespread beggar-thy-neighbor policies exacerbated the global depression. The conflicts and hardships experienced in this period led eventually to a fundamental turning point in United States trade relations: the passage of the Reciprocal Trade Agreements Act of 1934. This legislation authorized the President to negotiate most-favored-nation agreements to reduce trade barriers with other countries. Gradually, United States trade policy became more sensitive to overall national and international objectives, and the formulation and direction of American policy shifted to the executive branch.

These changes were important for the United States economy, which by 1934 had become more and more closely linked with global economic conditions. During the 27-year period covered by this trade legislation, the value of United States trade grew fifteenfold. This increase paralleled a general worldwide trade expansion and liberalization carried out under the auspices of the General Agreement on Tariffs and Trade (GATT). Since 1947, GATT has promoted more open international trade relations, holding periodic multilateral negotiations among an increasing number of member states to achieve reciprocal and nondiscriminatory reductions in international trade barriers. After six such rounds involving over 50 countries, the volume of world trade increased nearly sixfold from 1948 to 1968, and average tariff rates among major trading nations dropped as much as one-fourth to about 10 percent on dutiable goods.[1]

The United States government has been a leading architect of this liberal trading system. In large part, its role has reflected the importance of foreign trade to the United States economy. As the world's largest trader, the United States exports and imports about 13 percent of the world's total goods. In aggregate terms, United States trade as a percentage of gross national product (GNP) is lower than other major trading nations—currently about 15 percent. But these overall figures may obscure important relative considerations. For example, the share of exports in the United States gross national product has almost doubled in the last ten years. Moreover, in particular industries, especially those manufacturing heavy ma-

[1]For further discussion of United States trade history, see Charles P. Kindleberger, "U.S. Foreign Economic Policy, 1776-1976," *Foreign Affairs,* January, 1977, and *The Trade Debate,* U.S. Department of State, Publication 8942, Washington, D.C., May, 1978, pp. 5-8. For further discussion of international trade trends under GATT, see Richard Blackhurst, Nicholas Marian, and Jan Tumlir, *Trade Liberalization, Protection, and Interdependence,* GATT Studies in International Trade, number 5, Geneva, November, 1977, pp. 7-19.

chinery and high-technology items, exports account for a high percentage of American goods produced. For instance, 26 percent of all aircraft equipment made in the United States is sold abroad, and similar or even higher export ratios apply to construction machinery, fertilizers, pharmaceuticals, metal products and milling equipment. Throughout the United States economy, it is estimated that one of every eight workers in manufacturing makes goods for export.

American agricultural production is also heavily reliant on foreign markets. By 1975, 21 percent of all United States farm output was exported, and the percentage reached significantly higher levels in the case of wheat, soybeans, cotton, tobacco, rice and corn. Overall, one of every three acres of American farmland is worked for export, and the value of United States farm sales abroad has increased over fourfold within the last decade.

The United States economy is also dependent on purchases of foreign goods. Indeed, there is an important general relationship between United States export and import flows. American foreign sales support the United States capacity to buy needed imports, and the ability to offer markets to other countries brings greater worldwide opportunities for United States goods. American industry uses about three billion tons of raw materials each year, about one-fifth of which comes from foreign sources. Many essential raw materials cannot be produced domestically to meet United States needs. The exigencies of foreign dependency have been made starkly clear by recent events in the petroleum trade, where United States annual import costs rose tenfold to $42 billion from 1972 to 1977. But United States reliance on foreign supplies extends well beyond oil to other vital resources, like bauxite, rubber, cobalt, nickel, asbestos and tin. Raw materials, however, are by no means the only imported products that are needed in the United States economy; more than 60 percent of total United States foreign purchases are manufactures.

Since World War II, the most substantial trade relations have involved other Western industrial states. The European Economic Community (EEC), which since 1958 has become one of the world's largest internal markets, has been the most significant outlet for United States foreign sales. The EEC states take about 22 percent of all United States exports, and they purchase the most United States agricultural goods. Canada has been the single most prolific trader with the United States, involving some 20 percent of all United States trade. Canada has been an important source of many needed raw materials, and transactions between the two countries have linked their economies in many critical ways. Japan has developed into the third largest market for United States exports, providing about one-tenth of United States foreign sales. However, over the past decade, United States trade deficits with Japan have been increasing and have produced considerable American pressure for a more balanced trade relationship.

Transactions with the developing world have represented another important area of United States trade relations. Over the past decade, United States trade with developing countries has seen major changes and unsurpassed rates of growth. American trade with the developing countries accounts for about 35 percent of all United States exports and 45 percent of all United States imports. United States purchases include essential raw materials, and, increasingly, manufactured goods. Many developing nations have become important United States trading partners.

American dealings with Communist countries constitute a third set of trade relations. Although sales to centrally planned economies represent only about two percent of United States exports, trade in this area has been growing. United States high-technology and agricultural goods have been key items of demand. But overall, United States trade with Communist states has reached only marginal levels because of various political and economic obstacles, like pricing and exchange differences, strategic export controls, and trade restraints that stem from domestic policies.[2]

LIBERALIZED TRADE BENEFITS

Given the patterns and characteristics of contemporary United States trade relations, it is important to consider the impacts and benefits of such trade in the United States economy. During the period after World War II, there was a significant increase in the volume and liberalization of international trade. The underlying economic aims were to maximize the productive use of resources and to achieve overall gains in national income. In more specific terms, it is believed that increased trade and its liberalization will result in several types of benefits to the national economy. First, there are consumption gains: trade can provide a greater variety of goods at lower costs to consumers. Second, there are production gains: trade flows lead to greater allocations of resources to the most productive areas, generating increases in overall production and employment. Third, trade liberalization spurs increased efficiency through greater economies of scale. Fourth, increased liberal trade will foster a more competitive domestic economy, minimizing the inefficiencies and abuses associated with highly concentrated market power. Finally, more open trade will contribute to domestic price stability, helping to reduce prices in the short term and control inflationary pressures over the long term.[3]

These impacts and gains from increased liberal

[2]This discussion has drawn upon *The Trade Debate,* pp. 9-15.

[3]For more discussion along these lines, see Blackhurst, Marian, and Tumlir, *op. cit.,* pp. 21-29.

trade, however, are not uniformly felt in national economies. Indeed, serious adjustment problems and inequalities may result from the differential effects of international trade flows. Those firms and workers within import-competing and inefficient industries must often bear the relative and immediate costs of aggregate long-term national gains. In addition, they are frequently unable or unwilling to undergo the process of adjustment, which entails moving or adapting to more productive areas of specialization.

In the current United States economy, the differential impacts of more open trade vary among particular regions and among specific industries and workforces. A recent congressional study concluded that there are substantial overall American economic gains from continued trade liberalization, but that the distributional effects have become quite uneven. For example, Southern, Middle Western and Western states are expected to experience the greatest gains, but the Northeast is seen to suffer disproportionately. Whereas high-technology and agricultural sectors would enjoy gains in production and employment, industries that are primarily labor-intensive and use well-known technologies face the greatest injury and loss. These areas include the textile, footwear, steel product and electronic industries. Furthermore, the greatest losses will be felt among semiskilled workers, like machine and assembly-line operators, who are often lower-income people, women and minorities.[4]

These effects and related domestic adjustment difficulties give rise to strong political pressures for protection. The United States domestic political structure has been particularly open to such pressures. Different groups can effectively mobilize their trade-restricting efforts before numerous United States government bodies, involving Congress, the executive departments and the federal judiciary.[5] Faced with competing policy demands, the United States government has taken short-term steps to ameliorate specific areas of trade injury, while supporting increased trade liberalization to realize overall national gains. However, this posture has been difficult to maintain because of growing conflicts between immediate and long-term policy needs. Furthermore, over the past decade the base of American domestic support for increased trade liberalization has substantially narrowed. Similar trends have been experienced among other major trading nations. These developments have led to a shift of emphasis in international trade policy that involves greater focus on reducing the risks, costs and distributional problems associated with open trade relations.[6]

TRADE AS AN ELEMENT OF U.S. FOREIGN POLICY

Historically, trade relations have been closely linked to other aspects of United States foreign policy. However, with the emergence of the United States as a preeminent power asserting worldwide interests, responsibilities and leverages, this relationship has become stronger. In more specific terms, the relationship between trade and other foreign policy can be evaluated in four basic ways. Trade can be treated as an element of structural power in creating a particular order or overall set of relationships; a substantive concern or object of foreign policy itself; a means to secure particular materials or economic conditions perceived vital to foreign policy goals; a specific instrument of coercion or denial.[7]

After World War II, the United States tried to construct a liberal international trading system, motivated by key foreign policy concerns. After an era of economic nationalism, United States officials regarded more open multilateral trading patterns as an essential condition for a peaceful and stable international order. Similar connections between broad foreign policy goals and trade policy continued into the 1950's and 1960's, particularly with regard to relations with Western allies. During this time, the United States supported European economic integration—despite immediate trade costs to the United States—to strengthen West Europe against perceived Communist threats and to help solidify Western unity. Comparable policies were taken vis-à-vis Japan and others. This pattern of trade relations that extended throughout the non-Communist world reflected the postwar international structural position of the United States. As an unchallenged hegemonic power, the United States was able to create and promote a favorable international order by establishing an overall set of economic relationships that met its designs and fostered compliance among its allies.[8]

In a different sense, links between trade and United States foreign policy have occurred when commercial transactions themselves represented the objects of foreign policymaking. This focus on trade has been especially important and contentious. Indeed, as trade-related problems have been experienced in a variety of contexts—agricultural transactions with the

[4]For a report of a recent Congressional Budget Office study that examines the differential impacts of liberalized trade within the United States economy, see *The New York Times,* March 11, 1979, pp. 1, 19.

[5]For further discussion of the United States domestic structure with regard to American commercial policies, see Stephen D. Krasner, "U.S. Commercial and Monetary Policy: Unravelling the Paradox of External Strength and Internal Weakness," *International Organization,* Autumn, 1977.

[6]See W. Michael Blumenthal, "Steering in Crowded Waters," *Foreign Affairs,* July, 1978, p. 734.

[7]See Klaus Knorr, "International Economic Leverage and Its Uses," in Klaus Knorr and Frank N. Trager, eds., *Economic Issues and National Security* (Lawrence, Kansas: Regents Press of Kansas, 1977), for related discussion of how economic factors can be used to achieve state policy.

[8]See Krasner, *op. cit.*, p. 639, for further comments on the international structural position of the United States.

EEC, import quotas and trade imbalances with Japan, trade preferences with developing countries and export restraints with raw materials producers—trade issues have become high priority items on the American foreign policy agenda.[9] The importance of trade as an object of foreign policy has been heightened by growing economic interdependence and the need for greater international management to avoid conflict.

Trade has also been used to secure materials and economic needs deemed essential to foreign policy. This effort has involved a wide range of goods and has taken many forms. For many years, the United States government has protected and subsidized key domestic industries, seeking to maintain sufficient economic strength to deal with foreign policy and security contingencies. Since World War II, the United States has also stockpiled strategic materials as part of an overall defense posture. Moreover, the United States government has attempted to diversify and secure sources of foreign supplies to lessen dependence that could affect national security and American foreign relations. However, these policies have become very costly in terms of government expenditures and impacts on international trade relations, and their effectiveness has been considerably reduced by a growing American inability to sustain broad national autonomy in view of current international economic conditions.

Finally, trade as a specific instrument of coercion or denial has long been part of United States foreign policymaking. This use of trade represents an effort to influence—and often punish—other states' behavior by controlling or withholding valued supplies. For example, in many different settings the United States has employed trade embargoes against countries like Great Britain, Cuba and Rhodesia. The United States has also maintained strategic export controls on East-West trade since World War II. Historically, the exercise of coercive or denying power by means of trade policy has been generally ineffective, in large part because of the broader availability of supplies in various international markets. However, the United States has applied export controls in other areas to affect particular global developments. Thus, the United States has applied controls on nuclear exports, seeking to slow the spread of nuclear weapons technology and to ensure greater safeguards. Recent efforts to control trade flow have aimed at combating violations of human rights and at international terrorism. In these cases, however, multilateral coordination is necessary to realize effective action.[10]

TRENDS IN U.S. ARMS SALES

In the area of arms sales, trade and other foreign policy concerns interact. During most of its history, the United States maintained a generally laissez-faire approach to weapons production and arms sales.[11] However, American involvement in weapons transfers took on a changed character during World War II. Since that time, the United States has been the dominant arms exporter in the world, and weapons transfers have become a central feature of American foreign policy. In recent years, they have also had a considerable economic impact for the United States, because arms sales account for about eight percent of total United States exports.

In the past several decades, United States weapons transfers have been conducted through three basic channels. The most common channel was the Military Assistance Program (MAP), involving grant-aid packages designed to implement United States containment policies and to support friendly regimes. This program represented about one-half of all United States aid from 1953 to 1961; and through 1977, when it was phased out, MAP transactions funneled some $53-billion worth of arms abroad. The second channel was the Foreign Military Sales (FMS) program, a government-to-government transaction based on credit sales or cash purchases. Since the early 1960's, FMS transfers have become the prevailing approach used to supply United States arms overseas. For example, by 1975, FMS transactions reached about $8.5 billion in annual sales to some 60 countries. The third channel of American weapons transfers is through commercial sales involving export licenses extended by the United States government. This avenue has been relatively small in volume, about $1.5 billion in 1977, because of congressional restraints and the attractiveness of the FMS program.

United States policy with regard to arms transfers has undergone considerable change in recent years. First, the major terms of transfer have shifted from aid to trade, reflecting the growing capacity of recipients to purchase orders and attractive American economic

(Continued on page 227)

[9]For general discussion along these lines, see Richard N. Cooper, "Trade Policy Is Foreign Policy," *Foreign Policy*, Winter, 1972-3. This link between trade and foreign policies gained more importance as Europe and Japan became strong economic competitors and more independent allies and as developing countries began to press for significant changes in international economic relations.

[10]See Warren Christopher, Deputy Secretary of State, "The Role of Exports in U.S. Foreign Policy," *Current Policy*, no. 44, U.S. Department of State, November, 1978, for further discussion.

[11]For an account of past events and overall arms sales patterns, see Anthony Sampson, *The Arms Bazaar* (New York: Viking Press, 1977).

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"In the face of dollar weakness and balance of payments deficits, some have regarded United States arms exports as either a villain or a panacea in United States international economic relationships. But in the overall perspective of United States balance of payments transactions, arms exports have too modest a position to be assigned either role."

Arms, Oil and the American Dollar

By Edward W. Erickson

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and Thomas J. Grennes

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THERE is tension all around the rim of the Indian Ocean, a new regime is being established in Iran, the United States balance of trade is showing substantial deficits, and the world price of oil is taking an upward jump; at the same time, there are Strategic Arms Limitation Treaty (SALT) talks between the United States and the Soviet Union. In addition, the emerging regime in Iran has questioned the rationale and productivity of substantial arms purchases by the less developed countries from the industrialized countries—particularly from the United States and the Soviet Union. An important question, then, is how important the arms trade is as a component of world trade, particularly for the United States and the U.S.S.R. Would any reduction in the armaments business have such serious repercussions in international financial markets that it would be impossible to reduce the arms trade? Is the arms trade itself one of its best justifications? A corollary question is whether it is the internal dynamics of the arms trade or more fundamental questions of competing national interests that give rise to the flow of billions of dollars worth of armaments in world commerce. These questions cannot be critically addressed without some basic understanding of the nature of the international monetary system and the composition of world trade.

There are several ways to measure balance of payments deficits, and the two most popular measures are seriously incomplete. The merchandise balance is reported monthly, and it measures the excess of merchandise exports over imports. Merchandise includes items like oil, agricultural products and machinery that pass through customs, but it omits two important categories of transactions, namely, services and lending. Services include items like income from previous foreign investment by American firms and income from licenses and royalties. Investment income in 1977 was $18 billion or 15 percent of total merchandise exports. In the United States economy, services have grown relative to manufacturing, and service exports have increased relative to merchandise, but this important information is ignored by the merchandise balance.

When service trade is included, the deficit shrinks from $32 billion to $15 billion. This latter measure is the current account balance, and the 1946-1978 data on the United States merchandise and current account balances are presented in Table 1. The relatively large positive numbers in the 1940's reflect the importance of the United States as a net exporter after World War II, rebuilding the economies of the world. The upward trend in the absolute value of the numbers since 1970 reflects three factors: (1) the effects of inflation, (2) the growth in United States participation in world trade, and (3) the rise in the world oil price combined with increased United States oil imports. In 1970, United States merchandise exports totaled $42.5 billion and United States imports totaled $39.9 billion. In 1977, United States merchandise exports totaled $120.6 billion and United States imports totaled $151.7 billion. The dollar value of total international merchandise export trade by all countries was $314.9 billion in 1970 and $1,133.9 billion in 1977.[1] The current account balance is more comprehensive than the merchandise balance, but it also omits the important economic activity of international borrowing and lending.

The United States is the center of the international financial market, and transactions in bonds, stocks and bank loans have become increasingly important, but this information is omitted from both the merchandise balance and current account balance measures of the balance of trade.[2] If a country runs a

[1]*Economic Report of the President,* 1979, Table B-103, p. 302.

[2]For more detail on balance of payments accounting and the development of the international financial system, see R.C. Lipsey and P.O. Steiner, *Economics* (New York: Harper and Row, 1978), especially chapters 36 and 39; P.A. Samuelson, *Economics* (New York: McGraw-Hill, 1961), especially chapters 31 and 34; and "Exchange and Payments, International," *Encyclopaedia Britannica,* 1974 (15th edition), vol. 7, pp. 23-35.

TABLE 1: United States Balance of Trade, 1946-78 (billion dollars)

Year	Merchandise Balance	Current Account Balance
1946	+ 6.7	+ 4.9
1947	+10.1	+ 9.0
1948	+ 5.7	+ 2.0
1949	+ 5.3	+ 0.6
1950	+ 1.1	− 2.1
1951	+ 3.1	+ 0.3
1952	+ 2.6	− 0.2
1953	+ 1.4	− 1.9
1954	+ 2.6	− 0.3
1955	+ 2.9	− 0.3
1956	+ 4.8	+ 1.7
1957	+ 6.3	+ 3.6
1958	+ 3.5	− 0.1
1959	+ 1.1	− 2.1
1960	+ 4.9	+ 1.8
1961	+ 5.6	+ 3.1
1962	+ 4.5	+ 2.5
1963	+ 5.2	+ 3.2
1964	+ 6.8	+ 5.8
1965	+ 5.0	+ 4.3
1966	+ 3.8	+ 1.6
1967	+ 3.8	+ 1.3
1968	+ 0.6	− 1.3
1969	+ 0.6	− 2.0
1970	+ 2.6	− 0.4
1971	− 2.3	− 4.0
1972	− 6.4	− 9.9
1973	+ 0.9	+ 0.4
1974	− 5.4	− 5.0
1975	+ 9.0	−11.6
1976	− 9.3	− 1.4
1977	−31.1	−15.3
1978	−32.0	−15.2

Note: The merchandise balance was in surplus every year from 1896 to 1970 and in deficit most years from 1851 to 1895.

Sources: Economic Report of the President, 1979, Table B-97, p. 294, and International Monetary Fund, *International Financial Statistics,* March, 1979, p. 390.

deficit on its current account, both the logic of balance of payments accounting and the realities of international finance require that it be offset by a surplus on its capital account. A current account deficit must be matched by a capital inflow financed through international borrowing or the sale of holdings of international monetary reserves, gold and capital assets (both foreign and domestic).

In addition to the practical problem of incompleteness of the common balance of payments measures is the logical problem of reconciling the balance of payments goals of various countries. Balance of payments accounting rules require that the balance of trade for the world as a whole be zero. Thus, any one country's deficit must be offset by some other country's surplus and vice versa. This means that it is logically impossible for all countries to achieve a surplus, even though the separate statements of national policymakers add up to an attempted world surplus. Thus, a balance of trade surplus is fundamentally different from many other policy goals like less inflation, greater real income or higher literacy.

Not only are collective surpluses impossible, but national surpluses are not necessarily desirable. Contrary to the popular notion which prompted Adam Smith to write *The Wealth of Nations* 200 years ago (and which still retains much appeal), surpluses do not ensure prosperity. The United States had surpluses every year in the period from 1896 to 1970 and had deficits most of the time during the years from 1851 to 1895, but the rate of growth of real income was not greater in the surplus period, and the string of surpluses included the relative poverty years of the Great Depression. Deficits may represent international borrowing to create long-lived real capital assets like the United States railroad system constructed in the nineteenth century, or deficits may simply reflect borrowing to finance current consumption of imports.

Thus one should be cautious in interpreting balance of payments deficits, but this does not mean that deficits may not cause problems. The international monetary system that prevailed before 1974 required that nations maintain fixed exchange rates between national currencies, and under this arrangement, balance of payments deficits presented special problems for the United States. The United States held gold reserves to maintain the value of the dollar, and deficits tended to reduce gold reserves. Thus, as persistent deficits reduced United States holdings of gold, they tended to impair the ability to maintain a fixed exchange rate. The dollar was devalued in 1971 and again in 1973, and in 1974 a major restructuring in the international monetary system resulted in floating exchange rates for most major currencies.[3] Since then, there have been no official exchange rates, and currency values have fluctuated from day to day according to supply and demand. Before 1974, deficits were significant because they were a crude signal that the dollar might be devalued, but under floating exchange rates the value of the dollar fluctuates continuously, and it can be observed directly and immediately.

THE VALUE OF THE DOLLAR

The value of the dollar has changed substantially since 1970, increasing relative to some currencies and decreasing relative to others; but compared to an average of 16 major currencies, the dollar has depreciated markedly (see Table 2). The same bundle of

[3]For more detail on the International Monetary Fund, see *Wall Street Journal,* September 10, 1973, p. 1; September 20, 1973, p. 1; and other *Wall Street Journal* international finance articles indexed under "International Monetary Fund" and appearing in September and October, 1973.

TABLE 2: Decrease in the Value of the Dollar Relative to an Average of Sixteen Major Currencies

Year	Dollars per SDR	1978 Monthly	Dollars per SDR	1979 Monthly	Dollars per SDR
1971	$1.086	January	$1.215	January	$1.285
1972	1.086	February	1.227	February	1.289
1973	1.206	March	1.237		
1974	1.224	April	1.226		
1975	1.171	May	1.220		
1976	1.162	June	1.240		
1977	1.215	July	1.260		
1978	1.303	August	1.271		
		September	1.281		
		October	1.349		
		November	1.272		
		December	1.303		

An increase in an entry means that the same bundle of sixteen currencies costs more in terms of dollars, i.e., the dollar has lost value. Special Drawing Right (SDR) is the name of this bundle of currencies.
Source: International Monetary Fund, *International Financial Statistics,* April, 1979, p. 10.

currencies that cost $1.09 in 1971 cost $1.30 in 1978.

Under the current system of floating exchange rates, gold has lost nearly all its monetary significance. The official price of gold was $35 per ounce from 1933 to 1971. Under this official pricing system, the United States in effect supported the price of gold. The price of gold was increased with the devaluations of 1971 and 1973, but the official pricing system has been abandoned since 1974, and the gold price now fluctuates according to supply and demand like other commodities including copper, sugar, diamonds, and oil.[4] Increases in the demand for gold have passed the old official prices by, and in early 1979 the price of gold was around $240 per ounce. Many governments still hold gold inventories, but some of them, including the United States and the International Monetary Fund, have begun to auction their stocks to the highest bidder. Thus, United States policymakers who previously concentrated their attention on the balance of payments and gold now concentrate on the value of the dollar.

Why did the dollar depreciate in 1977-1978? The primary cause is United States inflation, although United States energy policy is a complicating factor. Traditionally, the United States has had one of the lowest inflation rates in the world. United States inflation increased sharply in 1974 to 11 percent, but since this was accompanied by a worldwide inflation, the United States still had one of the lowest inflation rates in the world (see Table 3). World inflation has declined steadily since 1974, particularly in Germany, Japan and Switzerland, but in the United States it declined for two years and accelerated to 6.5 percent in 1977 and, further, to 9.0 percent in 1978.

It is not inflation per se that causes devaluation, but more inflation than one's trading partners. Higher inflation rates in the United States than in our major trading partners cause United States exports to become less price competitive in foreign markets and cause imports to the United States to become more price competitive in our markets. Decreases in the value of the dollar, or dollar devaluation, are part of the process through which competitive balance is restored. As the United States became a high inflation country relative to its trading partners in 1977-1978, the dollar depreciated sharply (see Table 2). The inflation was caused by United States monetary policy, which continued to be expansionary until November, 1978; since then the dollar has stabilized on currency markets.

OIL AND THE VALUE OF THE DOLLAR

The Organization of Petroleum Exporting Countries (OPEC) became an effective force in world oil markets in 1974 when the price of oil quadrupled.[5] The value of United States oil imports increased sharply, from $8.4 billion in 1973 to $26.6 billion in

TABLE 3: Inflation Rates for the United States and Major Industrial Countries

	1974	1975	1976	1977	1978
	(percent per year)				
Industrial Countries	13.1	10.8	7.8	7.8	6.8
United States	10.9	9.2	5.8	6.5	9.0
Germany	7.0	5.9	4.5	3.9	2.6
Japan	24.3	11.9	9.3	8.1	3.8
Switzerland	9.7	6.7	1.7	1.3	1.1

Entries refer to annual rates of increase in consumer prices.
Source: International Monetary Fund, *International Financial Statistics,* March, 1979, p. 35, and individual country tables.

[4]In addition to its financial, ornamental and dental uses, there is a substantial industrial demand for gold for such purposes as electronics manufacture and gold treatment of insulated windows. For a discussion of the effects of demonetization of gold, see *Wall Street Journal,* June 14, 1974, p.10.

TABLE 4: The Importance of Agriculture and Oil for United States Trade (billions of dollars)

	1970	1971	1972	1973	1974	1975	1976	1977
Total Exports	42.5	43.3	49.8	71.4	98.3	107.1	114.7	120.6
Total Imports	39.9	45.6	55.8	70.5	103.7	98.0	124.0	151.7
Agricultural Exports	7.4	7.8	9.5	18.0	22.4	22.2	23.4	24.3
Share of Agricultural Exports	17%	18%	19%	25%	23%	21%	20%	20%
Agricultural Imports	5.8	5.8	6.5	8.4	10.4	9.5	11.2	13.5
Net Agricultural Exports	1.6	2.0	3.0	9.6	12.0	12.7	12.2	10.8
Oil Imports	2.9	3.7	4.7	8.4	26.6	27.0	34.6	45.0
Share of Oil Imports	7%	8%	8%	12%	26%	28%	28%	30%

Sources: Economic Report of the President, 1979, Table B-98, p. 296, and *Survey of Current Business,* various issues.

1974 and $45.0 billion in 1977. Oil imports increased relative to total imports from 12 percent in 1973 to 30 percent in 1977. As a consequence, oil imports have been blamed for the weakness of the dollar. While the oil market and the dollar market are not unrelated, heavy dependence on oil imports alone cannot be the main cause of the depreciation of the dollar in 1977-1978. The oil price quadrupled in 1974 and this weakened the currencies of oil importers including the United States. But from 1974 through 1978, the OPEC oil price increased less than the world rate of inflation. There was nothing new or different about OPEC behavior that should have caused the depreciation of the dollar in 1977-1978. There are many countries that rely more heavily on oil imports than the United States, and some of them have no problems of inflation and weak currencies. Germany, Japan, and Switzerland import all their oil, while the United States imports only half of its consumption, and these three countries have the lowest inflation rates and the strongest currencies of the industrial countries.

Even though inflation explains most of the weakness of the dollar, United States oil imports have affected currency markets. However, the influence comes less from the high price imposed by OPEC than from the curious energy policy adopted by the United States. By holding domestic energy prices far below world prices, United States policy subsidizes oil imports by discouraging production from American wells and conservation by American users. If oil prices were decontrolled in the United States and permitted to rise to world levels, the volume of United States oil imports would fall because of less United States consumption and more United States production so that the amount of money spent by the United States on imported oil would be substantially less.

[5]For background on the Organization of Petroleum Exporting Countries, see *Wall Street Journal,* December 15, 1976, p. 6, and E.W. Erickson and H.S. Winokur, Jr., "Nations, Companies and Markets: International Oil and Multinational Corporations," C. Watkins and M. Walker, editors, *Oil in the Seventies* (Vancouver: Fraser Institute, 1977), pp. 170-210.

AGRICULTURE AND ARMAMENTS

In addition to the value of the dollar and the balance of payments, there is other important information contained in the composition of United States trade. There is a tendency for United States service exports to increase relative to merchandise exports and a tendency for international banking to become relatively more important for the United States. Americans continue to have a comparative advantage in agricultural products. Agricultural exports have comprised about 20 percent of United States exports in the 1970's, and show no tendency to decline (see Table 4). Total agricultural exports were about $24 billion in 1977 and the agricultural trade surplus (or net exports) was more than $10 billion. As late as 1973, net agricultural exports exceeded the value of petroleum imports. The United States is the major world exporter of several crops like wheat, corn, soybeans and tobacco. This has led to suggestions that this market power for United States agriculture should be used in the same way that OPEC uses its oil power. However, this would require restricting agricultural exports. And this conflicts with the domestic goals of agricultural policy.

Recent discussions of arms limitation have raised

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Would . . . "the United States be better off returning to an 'enlightened protectionism' in the face of the flood of Japanese imports, perceived discrimination manifested by CAP, and possible trade diversion as a result of the EEC preferential agreements?"

Trade with West Europe and Japan

BY WERNER J. FELD

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IN 1977, shipments of American goods to West Europe and Japan amounted to over one-third of total United States exports of $120.2 billion, and imports from the two areas into the United States were somewhat less than one-third of the $146.8-billion total imported goods. These figures illustrate the importance of these areas for the United States economy.

Even more significant for a full understanding of the economic and political relationship between these trading partners and the United States is a comparative analysis of the economic strength of the United States, West Europe, and Japan as shown in Table 1. For West Europe, the data refer to the European countries of the Organization of Economic Cooperation and Development (OECD) which, in turn, is organized into two major groupings: The European Economic Community (EEC), better known as the Common Market, and the European Free Trade Association (EFTA).[1] Table 1 shows not only strengths, but also vulnerabilities relevant for international trade. The total West European gross national product (GNP) exceeds that of the United States; but, on a per capita basis, the United States figure is more than 50 percent higher than that of West Europe. Exports as a percentage of GNP are much higher for West Europe and Japan than for the United States. Japan's trade balance is strongly positive, manifesting substantial surpluses in transactions with the United States and West Europe. Japan is very deficient in crude petroleum and coal resources; West Europe is also very vulnerable regarding petroleum resources, although the growing North Sea exploration will relieve the shortage in the 1980's. Defense expenditures as a percentage of GNP are 50 percent higher in the United States than in West Europe, and six times higher than those of Japan.

Given the overall strength of the West European and Japanese economies, it is clearly in the interest of the United States to push for maximum expansion of American exports to these areas. In line with the standing United States policy of continuing trade liberalization through recurring negotiations to lower tariffs and nontariff barriers (NTB's), United States President Jimmy Carter and the heads of the governments of Japan and the major developed countries in West Europe reaffirmed the continuing relevance of these policies at the London summit meeting of May, 1977, by stating:

> We will provide strong political leadership to expand opportunities for trade to strengthen the open international trading system, which will increase job opportunities. We reject protectionism; it would foster unemployment, increase inflation, and undermine the welfare of our people.[2]

These policy views were confirmed at the economic summit meetings in Bonn (1978) and in Guadeloupe (1979) and are reflected in the ongoing multilateral trade negotiations (MTN) to reduce trade barriers, known as the "Tokyo Round."[3]

PATTERNS OF TRADE WITH WEST EUROPE

To gain a proper insight into the pattern of American trade with West Europe, it is useful to focus on the two major economic groupings of states—the EEC (a customs union) and EFTA (a free trade area)—which, through their particular economic integration schemes,[4] have materially influenced the trade flows across the Atlantic.

United States exports to the EEC in 1977 amounted to $26.5 billion, making the EEC the foremost customer of the United States. Imports from the EEC of $22.1 billion in that year resulted in a favorable trade balance of $4.4 billion for the United States. Indeed,

[1]The EEC consists of France, West Germany, Italy, Great Britain, The Netherlands, Belgium, Luxembourg, Ireland, and Denmark. EFTA's members are Austria, Sweden, Norway, Switzerland, Portugal, Finland, and Iceland. Greece, Spain, and Turkey are not members of either organization at present.

[2]Department of State, *The Trade Debate,* no. 8942, May, 1978, p. 15.

[3]The Tokyo Round takes its name from the fact that it was decided to institute a new round of trade liberalization negotiations at a meeting of foreign ministers in Tokyo in 1973.

[4]In a customs union, internal tariffs are gradually eliminated, allowing free movement of goods, and a common external tariff is established. In a free trade area, internal tariffs are also eliminated, but member countries retain their individual external tariffs vis-à-vis nonmember countries.

TABLE 1: Indicators of Comparative Economic Strength
United States—European OECD—Japan

Item	Unit	U.S.	European OECD	Japan
Population (mid-1977)	Millions	217	388	114
GNP, total	Billion $	1,887	2,036	678
Per capita GNP	$	8,704	5,251	5,959
Foreign trade				
Imports (c.i.f.)	Billion $	147.8	497.3	70.8
Exports (f.o.b.)	Billion $	120.2	461.4	80.5
Trade balance	Billion $	—27.6	—35.9	+9.7
Exports as percentage of GNP	Percentages	6.4	22.7	11.9
Production				
Coal	Million MT	613	310	17
Crude steel	Million MT	113	153	102
Electric power	Billion KWH	2,209	1,559	537
Crude petroleum	Million MT	403	66	1
Primary aluminum	Thousand MT	4,118	3,340	1,088
Motor vehicles, total	Thousands	12,639	13,004	8,496
Defense Expenditures				
Total	Billion $	69.7	104.2	6.3
As percentage of GNP	Percentages	3.4	5.5	0.9

Source: adapted from Department of State, *Indicators of Comparative East-West Economic Strength, 1977,* Special Report no. 49, December, 1978.

United States trade with the EEC since 1958, the date of its establishment, has, with the exception of 1972, always shown a surplus. In 1976, the favorable trade balance exceeded $7 billion. United States exports of agricultural products, with which the United States has been especially concerned since the introduction of the EEC's Common Agricultural Policy (CAP), declined from 1966 to 1969, but showed a general upward trend through 1977. In fact, farm shipments to the EEC in that year amounted to well over $6 billion and accounted for about 28 percent of United States agricultural exports.

United States exports to the EEC have more than quintupled since 1958 and the reverse flow of trade has more than quadrupled. This spectacular growth is, in part, due to multilateral trade liberalization measures like the Kennedy Round negotiations. In these negotiations (concluded in 1967), key roles were played by the United States and the EEC which, on many issues, especially agricultural commodities and nontariff barriers, had conflicting interests. Nevertheless, the negotiations were successful and resulted in tariff reductions exceeding 35 percent.[5]

With respect to EFTA, United States exports amounted to $4.1 billion in 1977, while imports were only $2.8 billion. Since EFTA was established in 1960, mutual trade has increased about 75 percent, and farm products have been a substantial part of United States exports.

JAPAN

The pattern of trade with Japan has been different. Although Japan was America's third largest customer in 1977, purchasing $10.5 billion, the United States imported $18.6 billion in Japanese goods. The result was an $8.1-billion trade deficit. Despite remedial efforts by the Japanese, this trend has shown a further deterioration in 1978, creating much apprehension in United States government and private quarters.[6]

The American goods shipped to Japan have included substantial amounts of badly needed raw materials such as coal and foodstuff. Japan is the largest single buyer of United States farm products, with purchases exceeding $3.9 billion in 1977. However, many types of modern machinery have also been purchased.

Japanese exports to the United States represented nearly 25 percent of total exports and American shipments to Japan accounted for more than 18 percent of total Japanese imports. Hence, the United States has become the largest customer and supplier of goods and commodities for Japan. The expansion of trade between the two countries has been enormous since 1960, as can be seen in Figure 1, which also shows the widening gap in the trade balance, highly disturbing to many Americans.

One of the reasons for Japan's rapidly growing exports (expansion between 1955 and 1977 was about 30-fold) is the high productivity of her workers, which compensates for rising wage levels during the last few years. In industries like steel, automobiles, light elec-

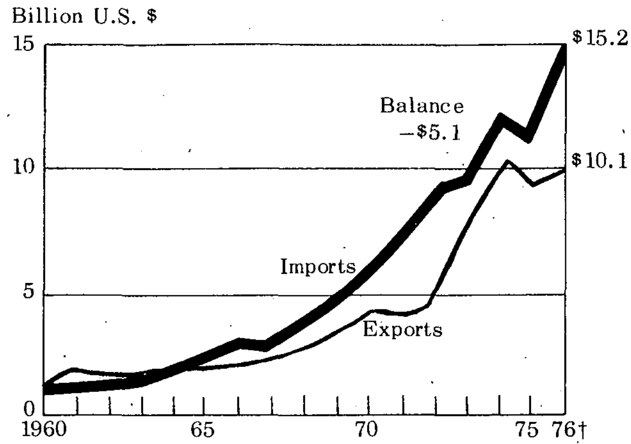
[5]Werner J. Feld, *The European Community in World Affairs* (Port Washington, N.Y.: Alfred, 1976), pp. 170-92.

[6]During the first nine months of 1978, the United States trade deficit with Japan was $8 billion, and for the whole year it may approach $12 billion. See U.S. Department of Commerce, *Survey of Current Business,* vol. 58, no. 12 (December, 1979), p. 42.

tric products, chemical products, synthetic fibers, and sewing machines, Japanese productivity tops that of the United States, the United Kingdom, and Germany by a large margin.[7]

Another reason for the continuing increase in Japanese exports has been the fact that rising exports often are perceived by the Japanese government as an essential ingredient for the continuing expansion of Japan's economic growth.[8] When the domestic economy shows signs of slack, greater emphasis is placed on Japanese exports. Indeed, during 1977, two important elements of overall growth—consumer demand and capital spending—were sluggish although, with the support of export business, Japan reached a respectable 6.7 percent GNP growth rate that year.

Fig. 1: United States Trade with Japan



*Exports and imports are f.a.s. transaction values, except prior to 1974, where imports are customs values.
†Based on ten months.
Source: International Economic Report of the President, 1977, p. 26.

THE IMPACT OF THE EUROPEAN COMMON MARKET

The establishment of the EEC and its sister organizations, the European Coal and Steel Community and Euratom, always had full United States support. The economic and political integration of West Europe continues to be a professed high-priority American foreign policy goal, although the current unfavorable prospects for European unity may seem to make this objective unrealistic. When this United States policy was initiated in the 1950's, political considerations were prime motivations, because political unity in West Europe was seen as a contribution to American security. But there were also American fears about economic costs in terms of reduced exports to Europe, because the creation of the EEC and EFTA might lead to diversions in trade flows benefiting intra-European trade at the expense of American shipments of goods. This did not happen. On the contrary, while the creation of the EEC did cause intra-Community trade to grow much faster than imports from nonmember states, the rapidly rising standard of living within the Common Market countries also raised the demands for goods shipped from the United States and other outsiders. The result for American exports has been highly beneficial.

THE COMMON AGRICULTURAL POLICY ISSUE

When the EEC introduced the Common Agricultural Policy (CAP) in 1962, the United States was afraid that this policy would eventually throttle American farm exports to the Community member states. The CAP instituted a scheme of variable import levies instead of traditional tariffs for many important agricultural products, including grains, beef, pork, and dairy products. These levies are tied to an interlocking system of domestic target, intervention and "sluicegate" prices, with the latter set in such a way that, considering the expense of shipping from the port of entry to the interior market, the cost of farm imports is roughly equal to or slightly above the price of farm products raised within the Community. The difference between the "sluicegate" price and the actual cost of the imported commodity is imposed as a levy by the Community authorities. As a consequence, regardless of how efficiently an American or any other non-Community farmer can produce agricultural commodities, imports into the EEC are restrained because they cannot compete well with intra-EEC farm products.

One of the main purposes of the Trade Expansion Act of 1962 was to counter the feared disastrous effects of the CAP on American farm exports. In the Kennedy Round negotiations based on this Act, United States representatives endeavored to hammer out a package deal on tariff reductions that would include a continued guaranteed "fair share" of the Community's agricultural market. However, although the Kennedy Round was a success from the American point of view, the agricultural effort largely failed.[9] Nevertheless, after a period of decline, American farm exports to the EEC have again risen, although it is difficult to determine how much the Community enlargement in 1973 and the global food shortage problem in the early 1970's contributed to this development and how much of a braking effect the CAP actually had.

The Trade Act of 1974, the basis for the Tokyo Round negotiations, also seeks to expand American farm exports. United States negotiations have again tried to assure greater access to the EEC agricultural market and, in a subtle way, have supported efforts initiated by the British and others to modify the CAP system. While the Tokyo Round talks have covered

[7]See Shigito Tsuru, *The Mainsprings of Japanese Growth: A Turning Point?* (Paris: Atlantic Institute for International Affairs, 1976), pp. 26-27.
[8]*Ibid.,* p. 23.
[9]For details see Feld, *op. cit.,* pp. 174-82.

the whole range of agricultural tariffs and NTBs, only a few specific arrangements that might help American farm exports have emerged, although existing flows of American agricultural commodities are likely to be maintained.[10]

EEC PREFERENTIAL AGREEMENTS

The EEC treaty contains a provision (article 238) that authorizes agreements of association with nonmember states. The Community has taken advantage of this article and has created associations with other European countries (Greece and Turkey) and a number of African, Caribbean and West Pacific countries. The underlying legal and economic result of all associations has been the gradual formation of individual free trade areas, allowing trade between the associated country and the Community members to flow unrestricted by tariffs. Such arrangements have also been established with countries rimming the Mediterranean basin, for which the Community claims to have an historical special responsibility.[11]

The primary bone of contention regarding the Community's association policy has been the granting of "reverse preferences." This means that the associate country is not only granted the elimination of tariffs for goods shipped to the Community, but is also allowed certain tariff preferences for the import of Community products. The United States and other nonmember countries consider reverse preferences discriminatory against third country manufacturers. However, while all associations up to the early 1970's contained aspects of reverse discrimination, the 1975 Lomé Convention, tying nearly 50 developing countries in sub-Saharan Africa, the Caribbean and the Western Pacific to the Community, dispensed with the need for reciprocal preferences. The Lomé Convention gives associated countries the option to grant special trade concessions to the EEC countries, but also allows them to make the preferences available to third countries. Thus, this source of international trade friction has been largely eliminated.

During the last few years, the Community's Mediterranean policy has succeeded in establishing a network of preferential agreements or associations with all Mediterranean states except Libya and Albania. Yugoslavia also has a trade agreement with the Community, but it is nonpreferential. The economic importance of the Community-Mediterranean relationship is illustrated by the fact that, apart from Libyan oil deliveries, 36.5 percent of the exports of all Mediterranean countries go to the EEC while 37.6 percent of their total imports come from the Community.[12]

The United States always deplored any kind of preferential treatment by the EEC outside Europe. It opposed the Community's Mediterranean policy because of concern about the adverse effects on American exports of citrus fruits and other goods, although the amounts involved are relatively small. As a matter of principle, the United States has proclaimed again and again that the preferential agreements are violations of the General Agreement on Tariffs and Trade (GATT), which only permits full-fledged customs unions and free trade areas to be exempted from the most-favored-nation clause. The Community has admitted a possible violation, but continues to claim its special responsibility for the countries of the area.

Another feature of the Lomé Convention and the Mediterranean agreements that could have adverse effects on United States exports is a strong emphasis on industrial and technological cooperation. This is supplemented by institutionalized, and at times purposely expanded, contacts between parliamentarians and civil servants from the EEC member states and the Lomé affiliates.[13] The consequence is the development of close relationships between the Community and the affiliated states which may have long-term implications for the distribution of international power and influence. The main beneficiary of this close relationship is likely to be the Community business world, but institutionalized cooperation with the Lomé affiliates and Mediterranean countries might also be helpful for the pursuit of EEC member states' foreign policies in various international forums, particularly the United Nations.

While at this time the United States government appears to be relaxed about the potential rise of Community influence in the Lomé territories, the Mediterranean and perhaps the third world generally, pressures by American business interests may give rise to different attitudes among American foreign policymakers. The universal quest in Africa and other third world countries for critical raw materials needed to keep domestic industries running smoothly may spur competitive action and perhaps preemption of such materials, and for this the Community might be in a better position than the United States. Athough there is a clear economic imperative for economic cooperation between the United States and the Community, the perceived priority of national solutions to remedy adverse economic and political situations may prevent the formulation of rational cooperation policies and, thereby, may constitute a major challenge to United States foreign policy.

Finally, another economic development in West Europe could have a long-term impact on United States exports to the region. Following the enlarge-

[10]For details see *Agence Europe*, March 5, 1979. The EEC made some concessions on wheat, beef, and a few other items, but rejected any accommodation on citrus fruit and almonds for which the United States had pushed very hard.

[11]See Feld, *op. cit.*, pp. 131-54, for additional information.

[12]See Carl A. Ehrhardt, "EEC and the Mediterranean," *Aussenpolitik*, vol. 22, no. 1, 1971, pp. 21-22.

[13]Feld, *op. cit.*, p. 129.

ment of the EEC in 1973, Austria, Finland, Iceland, Portugal, Switzerland, Sweden, and Norway (all EFTA members) signed agreements establishing free trade areas with the Community. Only industrial products are subject to these strictly bilateral agreements. It is too early to determine exactly how much trade diversion will result, because these agreements were only fully implemented in 1978. However, some impairment of American exports may well be anticipated, because the complete absence of tariffs will make some European goods more competitive in intra-European trade than similar United States products.

TRADE BALANCES AND QUOTAS: JAPANESE PROBLEMS

When United States Treasury Secretary Michael Blumenthal arrived in Tokyo in early March, 1979, he characterized his forthcoming talks with the Japanese government as part of a continual "prodding of Japan to do more to reduce her excessively large trade surpluses in the interest of international economic and monetary stability."[14] This surplus could rise in 1979 to more than $13 billion, unless Japan takes energetic measures to change her traditional way of handling international trade.

Specific activities on the part of the Japanese government have created a wide trade gap vis-à-vis the United States and other countries. The Japanese government has on occasion provided promotional subsidies and from time to time has authorized dual pricing on various products, whereby export prices were set below domestic wholesale prices, if not below manufacturing costs; examples are sewing machines, steel, and chemical fertilizers.[15]

In some cases, the Japanese government seems to have resorted to clear and unjustified (in terms of GATT) protectionism. For example, United States computers enjoy a comparative advantage, but although Japan has removed quantitative restrictions, the Japanese government levies tariffs on hardware and peripheral equipment three times the rate charged by other advanced countries. It has also been accused of introducing hidden nontariff barriers to foreign consumer products, effectively impeding the importation of such goods. The upshot of all this is a large contribution to an already enormous United States trade deficit, partly caused by oil imports, which cannot be tolerated over a protracted period.

Although the United States government claims it wants to avoid protectionist measures, it cannot ignore the layoffs in industries like steel and television, which result from the flood of Japanese goods on the United States market. In order to halt the sales of Japanese steel below production cost, the United States imposed antidumping duties, which the Japanese claim to be unfair protectionism. Later, the United States set up a system of reference prices for steel in the United States, which are used as a base for computing duties and which would stop below-cost sales by Japanese firms. The danger of this scheme, which has found the approval of steel companies, labor unions and interested congressmen, may be that other industries affected by competitive imports will seek similar protection. If these demands were accommodated, it would undermine the United States credibility regarding its commitment to trade liberalization in the Tokyo Round.

As the Japanese trade surplus rose and Japan amassed foreign currency reserves, the United States government urged revaluation of the yen. Beginning with the devaluation of the United States dollar in 1971, the value of the yen has risen gradually from 360 to about 200 yen to the dollar. But this has not perceptibly narrowed the trade gap between Japan and the United States. Moreover, the Japanese government has resisted pressures for upward change of the yen, although the stronger the yen, the lower the cost of imported raw materials and, thereby, the production cost of industrial goods in Japan.

The Japanese government is fully aware of the hazards of the disequilibrium in trade with the United States and, after strong urging, agreed to an average 23 percent unilateral tariff cut on 318 items and on the liberalization of NTB's, effective April 1, 1978. These reductions were in advance of any worldwide tariff cuts negotiated in the Tokyo Round. However, while the Japanese proposal might avoid escalating retaliation against the protectionist measures of the two countries, American government officials and congressional leaders regarded the proposal as inadequate because it would increase American exports by only $735 million. The United States Ambassador to Japan, Mike Mansfield, former leader of the Senate and an experienced hand in United States political affairs, cautioned Japan that a real "build up" in protectionist legislation, with the labor unions in the forefront, might emerge if America's trade deficit with Japan is not narrowed.

(Continued on page 223)

Werner J. Feld has published widely on the subjects of international politics and European Community affairs. His books include *Transnational Business Collaboration Among Common Market Countries* (New York: Praeger, 1970); *Nongovernmental Forces and World Politics* (New York: Praeger, 1972); *The European Community in World Affairs* (Port Washington, N.Y.: Alfred, 1976); and *International Relations: The Transnational Approach* (Sherman Parks, Calif.: Alfred, 1979). He has been an adviser and consultant to the United States Department of State.

[14] *Wall Street Journal*, March 5, 1979, p. 13.
[15] Tsuru, *op. cit.*, pp. 18-22.

"Although the decade of the 1970's has witnessed expanded commercial interaction between the Soviet Union and the United States, it has also been a decade in which underlying difficulties in the conduct of this trade continually reappear," notes this specialist, who points out that "In sum, United States trade policy has probably had only a relatively modest impact on the extent of United States trade with planned socialist economic systems. This is not to say that United States policy has been appropriate in all cases."

United States–Soviet Trade

By Robert C. Stuart
Professor of Economics, Douglass College, Rutgers University

THE volume of trade between the Soviet Union and the United States has grown substantially in recent years. Obviously, both countries have been eager to reap the benefits of trade expansion. At the same time, they have very different economic systems; political, economic and social forces in each country may not always favor expanded trade and commercial relations.[1]

Until recent years, the volume of trade between the Soviet Union and the United States was small. And even today, in relative terms, the volume of trade is not large in view of the very substantial gross national product generated by each nation and its political, social and economic influence on the rest of the world.

Current Soviet policy dates, in a sense, from the beginning of the plan era under Stalin in 1928. Beginning in those early years of central economic planning, the Soviet Union until recently followed a policy of trade aversion, reinforced by the events of the early 1930's. The Soviet position in world markets was not especially favorable during the worldwide depression. The prices of items exported by the Soviet Union (mainly agricultural produce) fell far more rapidly than the prices of items imported (mainly machinery and equipment). Thus exports were worth far less in terms of imported goods, making international trade even less attractive.

The Soviet economic system has also influenced the nature of Soviet international trade arrangements. With the conduct of foreign trade concentrated in a single ministry (the Ministry of Foreign Trade) and a currency (the ruble) that is not traded in international financial markets, international trade has been conducted on the basis of bilateral barter arrangements. In dealing with Western countries, the Soviet Union has sometimes used gold as a means of payment; but there has been no general mechanism by means of which trade imbalances could be financed. The net result of these institutional arrangements has been a reduced role for international trade in the Soviet development effort and a re-direction of trade toward sectors deemed most important by Soviet planners.

On the American side, a mix of factors has influenced trade relations with the Soviet Union, some favoring expansion and some supporting limitation. The American response to Soviet socialism has been one of regulated hostility. Historically, trade between the Soviet Union and the United States has been limited to nonstrategic (though technologically not unimportant) items.[2] This pattern of trade has been enforced in part by restrictive American legislation, an outgrowth of the political climate in the United States during the years immediately after the end of World War II.[3] Thus United States worry about Soviet strategic capability resulted in the Export Control Act of 1949, under which severe limitations were placed upon exports by United States firms (export licenses being required) to the Soviet Union and to East Europe. One result of this legislation, the Commodity Control List, still includes 720 items, even in the very different political climate of 1978.[4]

Other aspects of United States trade policy are also restrictive. For example, even today we do not grant the Soviet Union most favored nation status. Although the economic impact of this policy may be minor (it would lower tariffs on certain types of goods imported from the Soviet Union), its political impact is probably significant, since this provision for tariff reduction is automatically available to other United States

[1]For an excellent survey of the basic issues in East-West trade see Franklyn D. Holzman, *International Trade Under Communism—Politics and Economics* (New York: Basic Books, 1976). For an examination of underlying trade theory see H. Peter Gray, *International Trade, Investment, and Payments* (Boston: Houghton Mifflin Company, 1979), ch. 11.

[2]The most comprehensive treatment of this question is contained in the three-volume work by Antony C. Sutton, *Western Technology and Soviet Economic Development* (Stanford: Hoover Institution, 1973).

[3]See Franklyn D. Holzman, *op. cit.*

[4]U.S. Congress, Joint Economic Committee, *Allocation of Resources in the Soviet Union and China—1978* (Washington, D.C.: U.S. Government Printing Office, 1978), p. 214.

trading partners. While other factors may have been equally important in limiting the growth of United States-Soviet trade, restrictive American trade policy has been a continuing irritant in the relations between the two countries.

In addition, the Soviet Union has only a limited number of items that can compete in United States markets. Even when a purchase from the Soviet Union might be attractive, other factors (for example, the difficulty of guaranteeing spare parts and service) frequently tip the scales against the purchase. Thus, both for political and economic reasons, there was only limited trade between the United States and the Soviet Union through the mid-1950's.

But although trade aversion and mutual hostility were hallmarks of the Stalin and early post-Stalin years, circumstances changed in the 1960's and 1970's. Soviet suspicion of the outside world remains, but the demands of economic modernization have dictated an adjustment in the traditional Soviet trade posture. The mechanisms for planning foreign trade have been refined, and the role of trade in modernization has been reevaluated in the ideological and political framework of "peaceful coexistence" or détente. More fundamentally, the Soviet reexamination of the importance of international trade reflects the desire to offset the sluggish performance of the Soviet economy and to move from an extensive pattern of economic growth toward an intensive pattern of economic growth through a more rapid adaptation of modern technology to Soviet needs.[5] In sum, international trade is a rational mechanism for expanding Soviet productivity and improving the rate of growth of output and hence consumer well-being.

On the American side, attitudes toward the Soviet ideological underpinning remain largely unchanged. At the same time, American firms are eager to compete in any new markets and are reluctant to see other bidders, notably Japan and West Germany, succeed where they fail. Although American firms may find it difficult to trade with the Soviet Union, they are eager to do so.[6]

Thus the existence of common interests has led to an expansion of trade and commercial interaction. What is the nature of this trade expansion, and what does it portend for the future of Soviet-United States trade and commercial relations?

During the past two decades, the volume of Soviet

TABLE 1: Soviet Trading Partners
(percentage of Soviet trade)

	1950	1959	1970	1975
Soviet trade with:				
Socialist countries	81.1	75.3	65.2	56.3
Western countries	15.1	15.9	21.3	31.3
Developing countries	3.8	8.8	13.5	12.4
Total	100.0	100.0	100.0	100.0

Sources: Paul R. Gregory and Robert C. Stuart, *Soviet Economic Structure and Performance* (New York: Harper and Row, 1974), p. 279; Jack Brougher, "U.S.S.R. Foreign Trade: A Greater Role for Trade with the West," in U.S. Congress, Joint Economic Committee, *Soviet Economy in a New Perspective* (Washington, D.C.: U.S. Government Printing Office, 1976), pp. 677-94.

foreign trade has grown rapidly though unevenly. At the same time, there has been a marked shift in the direction of trade, away from socialist nations and toward Western (capitalist) nations. (See Table 1.)

This shift was most noticeable in the 1960's and 1970's. Thus between 1959 and 1975, the share of trade with Western countries in total Soviet trade roughly doubled. Between 1970 and 1975, trade turnover between the Soviet Union and the United States grew from 161 million rubles to 1.6 billion rubles. This increase has taken place at the expense of Soviet trade with socialist countries.

Has the shift of Soviet trade away from socialist and towards Western nations resulted in any major changes in the commodity composition of Soviet foreign trade? The evidence is summarized in Tables 2 and 3.

Although these statistics reflect aggregate Soviet trade flows, interesting trends can be observed. On both the import and the export sides, Soviet trade is concentrated in a relatively few areas. On the import side, machinery and equipment and consumer goods account for almost 70 percent of the total. Over the years, a number of other traded items, like fuels and textiles, have declined in importance.

On the export side, a good deal of Soviet trade is concentrated in machinery and equipment and, more recently, fuels and lubricants. There have been some striking shifts in Soviet export patterns. Fuels and lubricants have grown from a very small share to over one-third of Soviet exports. Exports of machinery and equipment have also increased, while the importance of textile products and consumer goods has declined.

SOVIET–U.S. TRADE: ISSUES OF THE 1970'S

Although there has been a significant growth of Soviet trade with the West and with the United States in particular, the numbers tell only part of the story.

First, the rate of growth of Soviet trade with the West and with the United States has been uneven, reflecting Soviet willingness to view trade as a short-term expedient. Some of this irregularity can be

[5] This is an argument frequently heard in the West. In the past, Soviet leaders have emphasized the ability of their economic system to achieve and to maintain rapid rates of economic growth. In light of a recent slowdown in the Soviet rate of growth, emphasis has been placed on the need to improve the productivity of the Soviet economy, especially through the adaptation of advanced technology.

[6] For an interesting account, see Marshall I. Goldman, "An Office in Moscow?" *Harvard Business Review,* vol. 56, no. 6 (November-December, 1978), pp. 153-60.

TABLE 2: The Structure of Soviet Imports
(percentage of total imports)

	1950	1970	1976
Ores and concentrates	5.8	3.4	1.4
Base metals and manufactures	8.0	5.9	8.6
Fuels and lubricants	11.5	1.5	3.6
Machinery and equipment	21.5	35.1	36.3
Chemicals	2.2	3.9	4.4
Rubber products	3.6	1.6	.9
Wood products	3.8	2.2	1.7
Textile products	7.7	4.8	2.3
Consumer goods	23.5	32.8	32.9
Unspecified	12.0	8.8	7.8
Total*	100.0	100.0	100.0

Source: Paul R. Gregory and Robert C. Stuart, *Soviet Economic Structure and Performance* (New York: Harper and Row, 1974), p. 291, and updated from Soviet official foreign trade handbooks.
*Components may not add to total because of rounding.

TABLE 3: The Structure of Soviet Exports
(percentage of total exports)

	1950	1970	1976
Ores and concentrates	2.2	3.8	2.2
Base metals and manufactures	8.8	15.3	10.4
Fuels and lubricants	3.8	15.1	34.3
Machinery and equipment	11.8	21.5	19.4
Chemicals	3.1	3.3	2.5
Wood products	3.1	6.5	5.3
Textile products	11.2	3.4	2.8
Consumer goods	22.4	11.8	5.4
Unspecified	33.6	16.3	17.5
Total	100.0	100.0	100.0

Source: Paul R. Gregory and Robert C. Stuart, *Soviet Economic Structure and Performance* (New York: Harper and Row, 1974), p. 292 and updated from Soviet official foreign trade handbooks.

explained by the uneven pattern of Soviet grain imports from the United States. While this element of instability has been lessened by longer-term purchasing arrangements, past purchases reflect poor Soviet harvests (or inadequate Soviet inventories) and represent an unstable market for Western sellers.

Second, the United States effort to link trade to the emigration and human rights issues led to the Soviet annulment of the United States-U.S.S.R. Trade Agreement in 1975. This intensified discussion in the United States on the question of human rights and, in particular, on the extent to which United States trade policy should be tied to the human rights question.[7]

[7]For a discussion of this issue and the relevant background material, see Franklyn D. Holzman, *op. cit.*, chapter 4.

[8]For more detail on this question, see John Farrell and Paul Ericson, "Soviet Trade and Payments with the West," in U.S. Congress, *op. cit.*, pp. 727-738.

[9]For a useful summary, see Steven Rosefielde, "The Changing Pattern of Soviet Trade," *Current History*, vol. 69, no. 409 (October, 1975), pp. 133-36; 147-48; for greater detail, see Philip Hanson, "International Technology Transfer from the West to the U.S.S.R.," U.S. Congress, *op. cit.*, pp. 786-812.

Although the matter of human rights is a valid concern, it is probably unreasonable to tie this concern to United States trade policy. The United States cannot attempt to legislate what is basically the internal affair of another nation, nor can it interfere in an uneven fashion with regard to different nations.

In the case of United States policy toward the Soviet Union and East Europe, the question of human rights has received a great deal of attention. In fact, the nature and extent of trade with this area are far more likely to be explained by basic economic facts than by American attitudes or legislation on human rights.

Third, in recent years, the Soviet Union has been purchasing more from hard-currency countries than it has been selling to these countries. The result has been a deficit in the Soviet hard-currency balance of payments. The ruble is not convertible to other currencies, and the deficit has had to be financed by the creation and granting of special credits. Aside from the effort necessary to make special credit arrangements, concern has been expressed about their size and the means by which repayment will be made.[8] Since Soviet planners determine both the volume and the direction of Soviet foreign trade, an imbalance is within the guidelines of Soviet economic policy, and is an unusual change in Soviet trade policy.

Fourth, although the decade of the 1970's has witnessed expanded commercial interaction between the Soviet Union and the United States, it has also been a decade in which underlying difficulties in the conduct of this trade continually reappear. The political dimension is ever present, not to mention the more basic problems of conducting business in Soviet markets and obtaining parts and service for Soviet industrial commodities sold in United States markets. Furthermore, the basic obstacles to expanded interaction (distance, the nature of the product mix in the two countries, the serviceability of traded commodities and so on) will not disappear.

Fifth, to the extent that Soviet imports from the West in general and the United States in particular are motivated by a desire to import advanced technology, the future of these trade relations is difficult to predict,[9] because of our relatively limited knowledge of the technology transfer process and the unanswered question of how well the Soviet economy can utilize this technology.

(Continued on page 229)

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"There is no doubt that American interest in the China trade is animated in part by the old vision of one billion customers: one billion toothbrushes and two billion armpits. But this is only a partial explanation. . . . A second, more important, reason for the interest shown by businessmen and governments of the non-Communist world in bidding for a share of the China trade is the estimate of China's trade potential."

United States Trade with China

BY JAN S. PRYBYLA
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CHINA'S commercial relations with the outside world may be divided into three periods: the tribute period (from the T'ang dynasty—618-907—to the first Opium war of 1839-42); the treaty period (from the Treaty of Nanking in 1842 to the establishment of the People's Republic of China in 1949); and the socialist period (from 1949 to the present).

The tribute system translated into commercial terms the Confucian view of the world outside China as a hierarchically inferior extension of the Celestial Empire—a "barbarian" sphere, related to China as a vassal is related to a lord.[1] Tribute trade was dominated by official suspicion of all things foreign, expressed by the attempt physically to limit the points of contact between Chinese and foreign traders. This was accomplished by restricting the foreign presence in China to a few designated ports, making it mandatory for foreign merchants to deal only through the imperial agent, and (over lengthy stretches of time) forbidding Chinese subjects to establish contact with foreigners outside the borders of China under pain of imprisonment followed by strangulation. In the mid-eighteenth century, the number of foreign trade ports was reduced to one (Canton). The hierarchical element of the tribute system was embodied in an elaborate ritual (*li*) whereby the foreign powers that wanted to trade with China publicly acknowledged their tributary status vis-à-vis the Emperor.

The tables were turned on a technologically backward China by the Western powers early in the nineteenth century. For some time, Britain had imported tea, silk, and porcelain from China and paid for them by exports of silver. After the East India Company introduced opium into British India, the big push began to sell opium to China. Opium soon constituted half of China's imports; the flow of silver was reversed; and the health of the Chinese nation was seriously damaged. Emperor Tao-kuang's attempt to ban the trade in 1839 led to a war with Britain in which the Chinese were defeated and forced to accept a harsh and humiliating peace treaty. The 1842 Treaty of Nanking abolished the tribute way of doing business and laid the foundations for a system of commercial treaties grossly unilateral and unfavorable to China.

Over the next half century China concluded some 50 similar unequal treaties with a growing number of Western powers and Japan. The provisions of the new treaty system included the opening up to trade of five ports in which the Western powers (later also Japan) enjoyed extraterritorial rights (e.g., foreign courts and consular jurisdictions, stationing of foreign troops and police); control over Chinese tariffs and the appointment of foreign personnel to top positions in the Chinese customs administration; the legalization of opium traffic; extension to all treaty signatories of every concession made by the Ch'ing emperors to any non-treaty power under the so-called "most favored nation" clause; freedom for the treaty powers to carry on coastal trade and for their ships to navigate on China's inland waterways; the cession of Hong Kong to Britain; and payment of an indemnity for the confiscation of opium by Chinese authorities, and later for damage suffered by citizens of the treaty nations as a result of civil disturbances in China, notably the Boxer Uprising of 1900.[2]

Although some treaty privileges were eroded during the republican era (1912-1949), they were not eliminated until the accession of the Communists to power in October, 1949.[3] From then until 1955, the Soviet Union was accorded special status in China (including privileges in Port Arthur and Dairen and some joint commercial ventures in sensitive sectors of

[1]Gene T. Hsiao, *The Foreign Trade of China: Policy, Law, and Practice* (Berkeley and Los Angeles: University of California Press, 1977), chapter 1.

[2]John K. Fairbank, *Trade and Diplomacy on the China Coast* (Stanford: Stanford University Press, 1969); *idem.* (ed.), *The Chinese World Order* (Cambridge, Mass.: Harvard University Press, 1970); Arthur Waley, *The Opium War Through Chinese Eyes* (Stanford: Stanford University Press, 1968); Jonathan Goldstein, *Philadelphia and the China Trade, 1682-1846: Commercial, Cultural, and Attitudinal Effects* (University Park: The Pennsylvania State University Press, 1977).

[3]The United States was the first major power to renounce its extraterritorial rights in China in 1943.

China's economy), but the concessions were short lived and relatively minor. The socialist—totally state controlled—trade system introduced in 1949 went through two periods: a period of heavy reliance on the Soviet Union, or "leaning to one side," and, after 1960, a period of trading with everyone, but mainly with non-Communist countries, or "leaning to all sides." At present, in sharp contrast with other Communist countries, China's exchanges with the non-Communist world (especially the industrialized West and Japan) represent more than 80 percent of the country's annual trade turnover.

U.S.-CHINA TRADE

Compared with Britain, the European powers and Japan, the role of the United States in bringing China to her knees under the treaty system was minor. In the wake of the opium wars, the United States concluded two treaties with China (1844, 1858). An important event in early United States-China relations was the proclamation by the United States in 1899 of the "Open Door" policy: an expression of the American desire to see all countries share in the privileges granted by China, however unwillingly, to any outsider. Essentially, the open door policy was aimed at curbing Russian and Japanese appetites in China, which were seen by Washington as threatening American interests in the Far East. Since the late nineteenth century, American involvement with China has been described by one writer as "a curious, usually glib amalgam of missionary zeal, reformist interest and dreams of a boundless market."[4] The zeal and the interest have cooled somewhat, though less than might be expected given the repeated rebuffs; but the dream is still vivid.

The open door declaration contributed to expansion of Sino-American commercial exchanges and to a very substantial influx into China of American missionaries. Before World War I, China's exports to the United States were raw silk and tea but, in due course, competition from Indian tea cut into China's sales. Soon other exports joined silk and tea: soybeans, bean oil, ginned cotton, eggs and egg products, fur skins, bird feathers, and bristles. Before World War I American exports to China were dominated by kerosene oil, timber and tobacco. Later, with the wartime development of the foreign-financed textile industry in China, which drew on a pool of abundant and cheap labor, Chinese imports from the United States also came to include raw cotton and steel.[5]

[4]Michael Schaller, *The U.S. Crusade in China, 1938-1945* (New York: Columbia University Press, 1979), p. ix.

[5]William Clarke and Martha Avery, "The Sino-American Commercial Relationship," in *China: A Reassessment of the Economy,* A Compendium of Papers submitted to the Joint Economic Committee, Congress of the United States (Washington, D.C.: U.S. Government Printing Office, 1975), pp. 502-509.

After the Communist takeover in 1949, United States-Chinese trade relations came to a standstill. Late in 1950, when China intervened in the Korean conflict, the United States government seized Chinese assets in the United States worth $80.5 million, embargoed all American exports to China, prohibited all United States air and sea carriers from calling on the People's Republic of China (PRC) or loading or transporting any cargoes ultimately destined for the PRC, and forbade the bunkering in United States ports of any vessels sailing to or from the PRC. Shortly afterward, the new Chinese government responded by confiscating just under $200-million worth of property belonging to 677 American businesses, religious organizations and individuals in China. These measures came to be known as the "frozen assets" issue. In December, 1949, the United States embassy in Nationalist China's wartime capital of Chungking was moved to Taipei on the island of Taiwan, home of the remnants of Chiang Kai-shek's armies and the Nationalist government. United States-PRC trade ceased, not to resume till the early 1970's.

United States President Richard Nixon's visit to the People's Republic of China in February, 1972, was a watershed, and led to a joint declaration—the Shanghai Communiqué. Before the visit, the United States had taken several conciliatory measures, beginning in 1969. These included the relaxation of restrictions on United States citizens wanting to visit the PRC, the removal of restrictions on the purchase by Americans of Chinese goods for noncommercial use, permission to export American-made components of nonstrategic foreign-manufactured goods to the PRC, and (in 1971-72) regulatory changes aimed at an eventual removal of the 1950 embargo on commercial relations with the PRC.

Among the more significant of these changes was a presidential decision to treat the PRC like the Soviet Union and some East European Communist countries for export control purposes. Following the Nixon visit to Peking, the pace of "normalization" of United States-PRC relations accelerated, and trade between the two countries picked up. By June, 1973, China and the United States had opened "liaison offices" in each other's capitals—surrogate embassies in the absence of formal diplomatic links.

The Shanghai Communiqué became the basis for United States policy toward the PRC, but the communiqué itself was not a final settlement. A number of difficult problems remained to be resolved. The major political bone of contention was the United States recognition of the Republic of China on Taiwan as the sole legitimate government of China and the United States commitment to the defense of Taiwan. The PRC had made it clear that Sino-American commercial relations would remain a residual activity, as

TABLE 1: China Trade 1972-1978 (million U.S. $)

Year	Total Trade: Total	Total Trade: Exports	Total Trade: Imports	Trade with United States: Total trade with the U.S.	Trade with United States: Total with the U.S. as percentage of total trade	Trade with United States: Exports	Trade with United States: Imports	Trade with United States: Wheat & Corn Imports only	Trade with United States: Cotton imports only
1972	6,000	3,150	2,850	95	1.6	32	63	59	0
1973	10,300	5,075	5,225	804	7.8	64	740	449	101
1974	14,080	6,660	7,240	934	6.5	115	819	330	186
1975	14,575	7,180	7,395	462	3.2	158	304	0	80
1976	13,275	7,265	6,010	336	2.5	201	135	0	0
1977	15,055	7,955	7,100	374	2.5	203	171	0	18
1978	20,700	10,200	10,500	1,151	5.6	324	827	n.a.	n.a.

Source: National Foreign Assessment Center, Central Intelligence Agency, *China: Economic Indicators* (Washington, D.C.: December, 1978), pp. 39, 41. Updated U.S. government estimates for 1978.
n.a.: not available.

long as the United States maintained diplomatic and military ties with Taipei. Despite their comparatively weak commercial bargaining position (China needs United States food grains and technology more than the United States needs Chinese fireworks, bristles, down and feathers), the Chinese used trade as a lever to promote their political objectives: they bought grain in the United States only when they could not get it elsewhere (Table 1) and purchased advanced technology in the form of capital plant and equipment in Japan and West Europe, acquiring only modest amounts from the United States. From January, 1975, through September, 1978, the PRC contracted for the purchase abroad of $1.5 billion in complete industrial plants. Of this amount, 52 percent went to Japan, 33 percent to West Germany and 0.3 percent to the United States.[6]

On December 15, 1978, President Jimmy Carter announced that the United States would terminate diplomatic relations with Taiwan as of January 1, 1979, and that a year later the mutual defense treaty between the United States and Taiwan would come to an end. Full diplomatic relations with the PRC were established on January 1, 1979, and ambassadors were exchanged two months later. A first major step toward the conclusion of a long-term bilateral trade agreement between the two countries was taken in March, 1979, with the resolution of the "frozen assets" issue.[7] The United States agreed to deblock $80.5-million worth of Chinese assets in the United States in return for China's payment of $80.5 million to American claimants over a period of five years. Since the total claims by American businesses, religious organizations and individuals against China came to $196.9 million, the settlement meant that the Chinese would pay 41 cents on the dollar.

THE CHINA MARKET IN THE 1980's

The principal motivation for the overtures to China made by the Nixon and Carter administrations was probably political. Chinese Communist control over the mainland is a reality, and so are the billion controlled people. Moreover, institutionalized good relations between the United States and China may be needed to act as a counterweight to the very active Soviet presence in the Far East. This reasoning is apparently shared by China.

There is no doubt that American interest in the China trade is animated in part by the old vision of one billion customers: one billion toothbrushes and two billion armpits. But this is only a partial explanation. American businessmen are perceptive, well informed and hardheaded. They know, or can easily discover, that this year the per capita gross national product (the value per head of all goods and services produced) in China will be around $450. The average yearly industrial wage is about $360, and most industrial workers are earning less than the average. On the poorer people's communes, which account for the majority of China's communes and the bulk of China's people, average yearly earnings from collective work (i.e., not counting income from subsidiary activities and work on the rural households' "private" plots) come to roughly $75 per head, a little better than 20 cents a day. At just over $1 billion estimated

[6]It should be noted that American firms have participated indirectly in technology transfers to China through third country sales. For example, the Control Data Corporation (CDC) sold to China $69-million worth of computers in 1978/79 through CDC's French subsidiary. The transaction is listed in trade statistics as a French, not an American, export.

[7]Because of the mechanics of its centrally planned economy, China prefers to conduct the bulk of its foreign trade on the basis of long-term bilateral trade agreements which specify the commodities to be traded and are annually reviewed by bilateral protocols.

for 1978, United States-China trade represented one-third of one percent of the total United States trade turnover that year.

A second, more important, reason for the interest shown by businessmen and governments of the non-Communist world in bidding for a share of the China trade is the estimate of China's trade potential. There is wide agreement that the Communist regime is determined to develop the country rapidly, that is, significantly to raise China's total and per capita income. In the past, there have been differences among China's leaders about the best way to accomplish this development and the precise ranking to be accorded to economic growth in competition with other national objectives. These differences are far from minor and may well continue to give rise to bitter factional feuding. By and large, however, on the basis of a 30-year record, there is a strong presumption that China's economy will continue to grow. The will is there and so is the organizational capacity.

The present leadership, in particular, appears to be bent on a rapid and comprehensive modernization of the economy. Since the reinstatement of First Deputy Premier Deng Xiaoping (Teng Hsiao-ping) in 1977, China's main economic policy objective has been to reach advanced world standards in agriculture, industry, science and technology, and national defense (the so-called "four modernizations") by the year 2000. To bring this about within the very brief projected time span ("initial" modernization is to be achieved by 1985) and on the monumental scale envisaged, large imports of sophisticated and very expensive technology will be needed throughout the 1980's.[8] Technological imports—practically all of them are to come from the non-Communist West and Japan—will assume various forms: mostly complete plant and equipment, but also licensing agreements, copying of imported prototypes, scientific and educational information obtained through visiting delegations, resident foreign experts, technical seminars given by exporters, foreign trade exhibitions in China, study of outside technical and scientific literature, and the sending abroad for training of large numbers of students, scientists, engineers, and perhaps skilled workers.

Completed and contemplated contracts for the purchase of advanced Western and Japanese technology in these various forms over the next several years run into the tens of billions of dollars. For example, the Japanese steel industry has negotiated or is in the process of concluding contracts for the construction of steel complexes in China costing more than $7 billion over the next few years. A Sino-Japanese trade agreement concluded in early 1978 envisages two-way trade of $20 billion ($10 billion each way) through 1985, and subsequent negotiations have extended the period covered by the agreement and have substantially increased the value of the projected bilateral trade. In the rush to modernize, China's shopping list is growing longer and more varied, and the price tag is rising vertiginously. Compared with import plans for 1979-1985, China's earlier (1953-1957) technology imports from the Soviet Union—considered by some to have been the largest single technology transfer in modern history—pale into insignificance.

Because of early involvement, geographical and cultural proximity, competitiveness and aggressive sales promotion, Japan may be expected to continue her dominance of the China market in many capital goods. But there is plenty of room for others in China's worldwide shopping spree. Potential American exports will, no doubt, revolve around agricultural commodities (especially wheat, corn, soybeans, cotton, and vegetable oils), metals (aluminum, steel scrap, iron and steel pipe), and machinery and equipment (oil exploration, drilling, production, and transportation equipment, jet aircraft, construction and mining equipment, specialized machine tools, computers, telecommunications equipment, scientific instruments, chemical fertilizer plants, and irrigation equipment). Naturally many American businessmen are eager to join in what they believe to be a looming bonanza. But are the expectations realistic?

CAN CHINA PAY THE BILL?

Two questions arise. First, will China be able to pay for what she intends to buy? Second, will China be able to absorb the massive inflow of sophisticated technology fast enough?

Thus far China's international credit rating has been excellent. Future solvency will hinge on three things: the ability to market Chinese goods in hard currency countries; the availability of long-term bank or government-to-government credits; and the size of the net revenue from "invisible trade" (e.g., tourism, hard currency remittances from overseas Chinese).

Selling goods. Ultimately, commodity exports to hard currency areas are the single most important source of external earnings for China. China's commodity exports, now and in the foreseeable future, fall into four major categories: foodstuffs (mainly rice) and raw materials of agricultural and animal origin (these account for about half of China's sales abroad); oil and coal (oil exports—mainly crude oil—represent between 10 and 13 percent of the value of all exports); manufactured goods, which account for about one-fourth of total exports and consist mostly of textile products, but also include a wide variety of other consumer goods and some machinery (the last is sold primarily to third world countries); and metals, minerals, and chemicals (less than 10 percent of all

[8] On the staggering dimensions of China's modernization plans, see J. S. Prybyla, "Changes in the Chinese Economy: An Interpretation," *Asian Survey,* May, 1979.

commodity sales abroad). It is the intention of the Chinese government to see trade expand at around 20 percent per annum over the next several years. At this rate, total trade turnover in 1985 would be roughly 3.5 times the 1978 level, that is, in excess of $72 billion.[9]

To keep pace with such growth, China's commodity exports will have to be vigorously promoted. There are several problems with this. First, because half of China's exports come from agriculture, which has been plagued by sluggish growth in past years, there may be some difficulty in significantly increasing the supply of exportable goods from this sector in the near future, until the modernization of agriculture is reflected in large output and productivity increases.

Second, although China's known onshore oil deposits are large (and there is probably much more oil offshore) and although petroleum production has been growing rapidly, large-scale oil exports will have to overcome obstacles both in demand and in supply. The quality of Chinese crude oil is not good (expensive dewaxing facilities are required); with rapid industrialization, domestic demand for oil is likely to rise sharply, despite attempts to continue relying on coal as the main source of primary energy; and, since most of the increase in oil production will have to come from new land and offshore fields, there are the twin problems of finding the deposits and then getting at them. Offshore exploration (where the promise of new finds appears to be greatest) and offshore production call for very advanced and expensive equipment and know-how available in the United States, Japan, and West Europe, in that order. Under the Sino-Japanese trade agreement of 1978, most of China's oil exports through 1985 have been committed to Japan.[10] However, some form of joint Sino-American offshore oil exploration and output-sharing ventures may be worked out in the coming years, and some of China's future oil exports may be directed to the United States.

The third problem has to do with the possibility of expanding the exports of manufactured goods. Many of these, especially textile products and footwear, are import sensitive, i.e., they compete with the output of industries that are domestically important in the importing countries, and they quickly encounter protectionist resistance. In 1975-1976 there was already talk of placing quotas on the importation into the United States of certain categories of Chinese cotton textiles (the PRC, unlike other textile exporters, does not subscribe to the International Multi-Fiber Arrangement).[11] It is China's intention gradually to increase both domestic consumption of manufactured products (higher value-added goods) and the proportion of such products in overall exports. In doing this, China will have to contend with the competition of other low-cost third-world exporters (Taiwan, Hong Kong, Singapore, South Korea) and she will have to learn fast how to market such goods in developed industrialized countries where demand patterns shift rapidly and quality is important.

PROBLEMS OF UNITED STATES TRADE

Chinese exports to the United States encounter additional problems. Under the Trade Act of 1974, the United States may accord China most favored nation tariff treatment (i.e., extend to China the tariff privileges enjoyed by the most favored United States trading partner) on two basic conditions. There must be a bilateral commercial agreement concluded initially for a period of three years, approved by a concurrent resolution of both houses of Congress and containing specific provisions on matters ranging from the settlement of disputes to the protection of the property of United States nationals. And China (like any other nonmarket country) must give public assurances that the free emigration of its citizens is not obstructed. This latter requirement may be waived for 18 months by the President with congressional approval and the waiver may subsequently be extended by Congress at one-year intervals.

The practicality of the emigration provision applied to one billion Chinese has been questioned, partly in the light of the reluctance shown by non-Communist countries to accept for resettlement even a handful of Vietnamese refugees. After all, if one is allowed to emigrate, there must be somewhere to go. Amendment of the act is being sought in Congress. The suggestion has been made that the President be allowed to decide whether most favored nation status should be given to a country on the basis of its past emigration record rather than on the basis of public

(Continued on page 222)

Jan S. Prybyla is the author of *The Political Economy of Communist China* (New York: Intext, 1970) and *The Chinese Economy: Problems and Policies* (Columbia, S.C.: University of South Carolina Press, 1978).

[9]On the overly optimistic assumption that the United States will succeed by 1985 in capturing one-fourth of the China trade (which is roughly Japan's share at the present time), this would still represent only 5-6 percent of total 1978 U.S. trade.

[10]The Japanese government has agreed to provide the domestic refining industry with large subsidies to help construct several refining facilities specially equipped to handle the heavy-wax imported Chinese crude oil. Over the first five years (1978-1982) of the agreement, China is to deliver to Japan 47 million tons of oil and 9.2 million tons of coal. Richard E. Batsavage and John L. Davie, "China's International Trade and Finance," in *Chinese Economy Post Mao (CEPM)*, A Compendium of Papers Submitted to the Joint Economic Committee, Congress of the United States (Washington, D.C.: U.S. Government Printing Office, 1979), vol. 1, pp. 707-741.

[11]Martha Avery and William Clarke, "The Sino-American Commercial Relationship," in *CEPM*, pp. 742-763.

"Since the developing world possesses more than half the world's petroleum and over two-thirds of the world's other valuable natural resources, its economic and geopolitical significance to the United States cannot be underestimated."

United States Trade with the Developing World

By Feraidoon Shams B.

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IN the present world political climate, the close interdependence among nations has made the pursuit of free and independent national policies increasingly difficult. The continuation of old economic laws and diplomacy in a world beset by political crosscurrents poses a dilemma for the twentieth-century nation-state. Western vulnerability to economic dislocation appears at a time of political uncertainty and shifting alliances in Africa, Latin America, Southeast Asia and the Middle East.

United States international trade has always been a major component of the American economy. Until recently, trade among the three major industrial areas —North America, Northwest Europe and Japan—has enjoyed rapid growth. The removal of trade barriers, closer economic cooperation and reduction of tariffs contributed to the increased economic mobility of these regions in international trade. After World War II, and especially in the two decades after the war, which saw the reconstruction of the West European states, world trade among the non-Communist industrialized countries more than doubled. Increasing by more than seven percent between 1955 and 1965, the international trade of the Western states reached $85 billion.

Trade based on the law of comparative advantage made possible the movements of capital, labor and technology across international boundaries. In world markets, the continued search for profit, the specialization of labor and the removal of trade barriers brought about optimal distribution of resources. But there was little understanding of underdevelopment on the part of richer nations or the underdeveloped people themselves. For the most part, international organizations like the United Nations were responsible for collecting data and disseminating information on the conditions of poor nations.[1]

During this period, countries with greater degrees of specialization and divisions of labor became richer. Conversely, however, in underdeveloped countries the maldistribution of natural resources, the rapid rate of population growth, the absence of savings and the limited supply of capital (for capital is left over after primary needs have been satisfied), introduced a disturbing imbalance in world economy. Separate and unequal, the rich nations were becoming richer and the poor poorer. In the decade after World War II, the price of the developed world's industrial exports increased by 20 percent. At the same time, the export prices of primary goods, mainly agricultural products and other raw materials from underdeveloped nations, rose by only five percent.

The colonial economies of the underdeveloped world need a positive balance of trade. These economies, however, were unable to correct their negative trade balances which resulted, in part, from large payments of interest on foreign investments. Thus international trade did not produce the intended results in favor of poor nations.

Nevertheless, the postwar era witnessed a rapid growth in world economy. In the late 1960's, United States President Lyndon Johnson stated that,

> In the past two decades, enormous progress has been made in building a closely knit international economy. Remarkable growth in the volume of international commerce has gone hand in hand with sustained world prosperity; each has contributed to the other. At times, deep and obvious strains in the international monetary system have imperiled this progress, but these financial difficulties have been weathered without a serious setback in economic growth or world trade.[2]

However, the global economy assumed a new character as the economic boom of the 1960's came to an end. Conflict behavior in many parts of the world and the increasing dependence of the industrialized Western nations on external sources of raw materials, especially oil, signaled the beginning of a new era. With the rapid integration and interdependence of world markets, the international monetary system

[1]Developed countries include the United States, Canada, West Europe, Japan, Australia, New Zealand and the Republic of South Africa. Developing, less developed, least developed, underdeveloped, and poor nations are used here interchangeably. Generally, they include those countries in Africa, Asia, Latin America and Oceania, whose standard of living is far below that of the developed industrialized Western states and the Communist bloc nations. Traditional modes of existence (chiefly rural), high birth rates, a high degree of illiteracy, and poverty are among the common denominators that separate the peoples of these nations from the rest of the world.

[2]Quoted in *Economic Report of the President* (Washington, D.C.: Government Printing Office, January, 1979), p. 135.

shifted toward exchange rate flexibility to adjust to freer world trade. Higher oil prices, accompanied by a world recession and inflationary spirals in industrialized states (the United States inflation rate in 1978 was over nine percent), introduced serious economic slumps.

As a nation that rose from quasi-independent status to become the world's major industrialized power, the United States has always regarded trade as an integral part of its economy. In international commerce, the United States tried to establish a mutually advantageous relationship with the developing world. Liberalized trade, based on either bilateral or multilateral agreements, and the expansion and preservation of United States investments overseas have been for decades at the core of the American foreign trade policy. Recognizing a growing need for a variety of raw materials, in recent years the United States has sought to improve its access to foreign markets on a competitive basis. Today, the United States pattern of trade with developing nations consists of the importation of raw materials and other primary products that help satisfy its internal consumption needs and sustain American economic growth. Industrial and manufactured goods comprise United States exports to developing countries. Between 1962 and 1974, the total value of United States exports and imports rose from over $37 billion to $200 billion. During the same period, the ratio of United States exports increased from almost 8 percent to approximately 15 percent.[3]

The United States trading approach to developing countries followed three distinct patterns: first, the preservation of the economic interests of the United States and its allies; second, the maintenance of a global balance vis-à-vis Soviet expansion of power in the developing world; and, third, the pursuit of geopolitical considerations. Since the developing world possesses more than half the world's petroleum and over two-thirds of the world's other valuable natural resources, its economic and geopolitical significance to the United States cannot be underestimated.

> The Third World plays a significant and in some instances a vital role in enabling the United States to sustain its vital national interests on the seas, in space and throughout this "geopolitical world . . . ."[4]

Accordingly, unfavorable alterations in United States international commerce along vital waterways and sea-lanes, some of which are situated in the developing countries, will have profound effects on United States strategic and economic interests. (See the map, "Essential United States Foreign Trade Routes," inside back cover.)

The United States has consistently viewed the normalization of relations, including the expansion of trade with the Soviet Union and other centrally planned economies, with great interest, believing that "peaceful coexistence" and the relaxation of political tension on a global basis require active East-West cooperation. From the Soviet perspective it is argued, however, that the policy of peaceful coexistence with the Western world can be pursued without any alteration in basic Soviet aims and objectives in the developing world and that wars of national liberation (Angola, Ethiopia) are not detrimental to East-West relations. Many Americans believe, however, that these Soviet objectives "could invite risks of superpower confrontation and possibly even war."[5]

United States trade with centrally planned economies has increased in recent years. In 1976, drought in East European states provided a major impetus for increased trade between East and West. In 1976, total United States exports to Communist bloc states exceeded $3.640 billion, while United States imports from these nations amounted to $1.059 billion.[6]

The international commerce of the United States is generally measured in terms of the value or of the volume of its exports and imports. The shifting importance of the various commodities indicates the changing character of the national economy. The flow of trade and capital between the United States and any other country also serves as a basis of its foreign trade. The degree of United States international trade also manifests itself in the form of foreign investments, assistance, grants, credits and import duties. Index values, however, could also serve as a method of measuring the development of trade.

Between 1945 and the latter part of 1977, United States foreign grants and credits consisted of contributions to international organizations and assistance programs to developed and developing nations that totaled $479.462 billion. In the first category, United States grants and credits to international financial institutions, the African Development Fund, the Asian Development Bank, the Inter-American Development Bank, the International Bank for Reconstruction and Development, and the International

[3]U.S. Congress, Senate, Committee on Finance, *Oversight Hearings on U.S. Foreign Trade Policy,* 94th Congress, 2d Session (Washington, D.C.: Government Printing Office, 1976).

[4]U.S. Congress, House Committee on International Relations, *The Soviet Union and the Third World: A Watershed in Great Power Policy?* Report to the Committee on International Relations, House of Representatives, by Senior Specialists Division Congressional Research Service, Library of Congress, 95th Congress, 1st Session (Washington, D.C.: Government Printing Office, 1977), p. 177.

[5]*Ibid.,* p. 6.

[6]The U.S. trades with states having centrally planned economies: Albania, Bulgaria, Czechoslovakia, Cuba, Democratic Republic of Germany, Hungary, People's Republic of China, People's Republic of Mongolia, Poland, Romania, U.S.S.R., and Yugoslavia; see U.S. Congress, House Committee on Ways and Means, *Trade Between the United States and the Non-Market Economy Countries,* 95th Congress, 1st Session (Washington, D.C.: Government Printing Office, 1977), pp. 3-4.

Development Association, amounted to $185.949 billion. In the second category, military grants to European, Middle Eastern, Asian and Western Hemisphere nations exceeded $179.9 billion. Finally, other United States grants and aid to developed and developing states between 1945 and 1977 totaled over $113.5 billion.[7]

From 1948 to 1977, more than 88 countries in Africa, Latin America, the Middle East and Asia were recipients of United States economic assistance. In almost three decades after World War II, the net cumulative total of United States economic commitments to more than 35 countries in Africa exceeded $3.523 billion of which $1.560 billion consisted of loans. Similarly, more than 24 countries in Latin America were beneficiaries of United States aid between 1948 and 1977. These Latin American countries received $7.001 billion in aid, of which $4.911 billion consisted of the loan portion. Including $9.823 billion in loans to 20 Near Eastern and Southeast Asian states, United States foreign aid to these nations between 1948 and 1977 totaled $17.627 billion. Finally, the net cumulative total of United States economic assistance between 1948 and 1977 to some 13 East Asian nations was $14.744 billion, which included $1.897 billion in loans. As a whole, during the postwar era, United States financial commitments to these developing nations exceeded $66.149 billion.[8]

United States exports to developing countries in 1977 exceeded $43.364 billion; in 1970, they had amounted to $12.993 billion. (In 1960, however, United States exports to developing nations had totaled $7.131 billion.) On a comparative basis, American exports to developed countries in 1977 reached the $73.837 billion mark, or 61.41 percent of the total merchandise exported that year; during the fiscal year 1970, United States exports to developed countries had exceeded $29.877 billion. Stating it differently, in 1977, the relative share of developed countries in United States merchandise exports declined by 8.3 percent from that of 1970. (In 1960, United States exports to developed nations exceeded $13.250 billion, or 5.2 percent less than the relative share of the developed countries in 1970.[9]

Since commercial activities among developed countries expand faster than trade between developed and developing nations, the increase in the share of United States exports to non-developed countries should be attributed to changes in the economy of the developing nations. As a whole, in the past three decades the per capita gross national product of the developing countries has grown at an average rate of 3.4 percent per annum. In recent years, the overall imports of non-oil producing developing countries from the United States have exceeded their exports to that country. Many non-oil producing developing countries, particularly the least developed, are now spending a significant portion of their export revenues on oil bills. Moreover, increases in the international prices of food and other commodities exacerbate the demands of impoverished nations to meet their basic needs. Higher world oil prices after the 1973 oil embargo created a serious imbalance in the fragile economy of poor nations, where the gross national product decreased by approximately three percent. To help improve the situation, United States international trade policy and the Trade Act of 1974 accorded preferences to the imports of poor nations. Since 1976, under the generalized system of preferences of the Trade Act, some 2,724 articles from 137 least developed nations have entered the United States on a duty-free basis. In 1974, the value of these otherwise dutiable products totaled about $25 billion.[10]

Few doubt the continued dependence of the United States on a variety of imported raw materials, especially oil. The continued energy problem inhibits long-range planning and renders other sectors of the economy stagnant or even retrogressive. The continued energy-intensive economy in the United States, increasing the demand for imported oil (which currently experiences upward fluctuations in cost and volume), will immeasurably alter United States imports composition. As long as oil remains a major source of energy for the industrialized Western states, the future status of the international trade will to a large extent be decided by the oil-rich developing nations.

The rising demand for sources of energy abroad has led to changes in the relative share of energy-related imports to total United States imports; the relative share rose from 10.5 percent in 1960 to 30.2 percent in

[7]U.S. Department of Commerce, Bureau of Census, *Statistical Abstract of the United States: 1978,* 99th annual edition, p. 868.

[8]*Ibid.,* p. 872. U.S. economic aid to developing nations in Africa includes aid to: Algeria, Benin, Cameroon, Central African Empire, Chad, Ethiopia, Madagascar, Malawi, Mali, Morocco, Niger, Nigeria, Rhodesia, Senegal, Sierra Leone, Somalia, Sudan, Tanzania, Togo, Tunisia, Uganda, Upper Volta, Zaire, Zambia, and other regions in Central, Southern, East and West Africa; in Latin America they are: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, Venezuela, and others; in the Middle East and South Asia, they include: Afghanistan, Bangladesh, Cyprus, Egypt, Greece, India, Iran, Iraq, Israel, Jordan, Lebanon, Nepal, Pakistan, Saudi Arabia, Sri Lanka, Syria, Turkey, Yemen Arab Republic and others, including the Central Treaty Organization and, in Asia, they include: Burma, Cambodia, Indonesia, Japan, Korea, Laos, Malaysia, Philippines, Taiwan, Thailand, Vietnam and other East Asian regions.

[9]*Ibid.,* p. 876.

[10]*Oversight Hearings on U.S. Foreign Trade Policy,* pp. 510-511. For the list of least developed countries and their energy needs, see *Current History,* vol. 74, no. 435 (March, 1978).

1977. In 1960, United States imports from developing countries totaled $5.965 billion; in 1970 they were $10.442 billion, and in 1977 they amounted to $67.480 billion. In contrast, for the years 1960 and 1977, the exports of the developed countries to the United States increased from $8.605 billion to $78.206 billion, respectively. To put it differently, the relative share of United States imports from developed countries decreased from 58.7 percent in 1960 to 53.3 percent in 1977. The relative share of United States imports from the developed countries attained its highest level in 1970, when the relative share exceeded any other year between 1960 and 1977.[11]

On January 1, 1979, the United States government terminated formal diplomatic relations with Taiwan, which had been expelled from the mainland by the Chinese Communists in 1950. This enabled the United States to end almost three decades of estrangement from the People's Republic of China. Adhering in principle to the Shanghai Communiqué of 1972, both governments established full diplomatic relations in March, 1979.

Despite changes in her status, however, Taiwan's commercial and cultural ties with the United States will continue. With an area of 13,592 square miles occupied by almost 17 million people, Taiwan's 1977 gross domestic product exceeded $17.5 billion. The inflation rate seems to have been arrested at six percent, and Taiwan authorities estimate that, in 1979, the island will maintain a favorable balance of trade of $1 billion, with total foreign trade reaching over $28 billion.[12]

Once essentially agrarian, and an important source of foodstuffs for Japan, within the past two decades Taiwan has moved toward rapid industrialization. The economic rehabilitation of the island, supplemented by American aid, including military assistance, has been phenomenal. It is estimated that Taiwan's international trade for the years 1980 and 1981 will reach $32.96 billion and $38.10 billion respectively.[13]

Approximately 40 percent of Taiwan's exports go to the United States. During the late 1960's, United States trade with Taiwan rose from almost $177 million in 1965 to approximately $463 million in 1970. During this period, United States exports to Taiwan nearly doubled, reaching about $150 million in 1969. The percentage share of Taiwan's total imports supplied by the United States, however, has fluctuated in the 1970's. It was 22 percent in 1971, which increased by 6 percent in 1975; in 1977 (estimated from partial year figures), these imports decreased to 24 percent. This decrease appears to have been caused by the foreign trade activities of some European countries, which have found profitable marketing opportunities in Taiwan.[14]

Since 1971, however, Taiwan's exports to the United States have fluctuated. During 1971-1972, the total share of Taiwan's exports going to the United States remained at the constant level of 43 percent. Thereafter, it declined, attaining a performance level of 39 percent in 1977. In terms of value, United States exports to Taiwan in 1971 amounted to $510 million and totaled $1.659 billion and $1.798 billion in 1975 and 1977, respectively. The value of United States imports from Taiwan reached $817 million in 1971, $1.938 billion in 1975, and $3.681 billion in 1977.[15]

ARMS AND TRADE

Ever since the collapse of the European balance of power during World War II, the world production of armaments has increased rapidly. A growing preoccupation with the maintenance of military balance and security has accentuated the defense needs of the world's industrialized nations. Other international factors (e.g., economic, political and social), however, have exercised an almost equal impact upon the strategic rationale of the world military powers. In the postwar era, the United States, the Soviet Union, Britain, and France produced 90 percent of the world's military materiel.[16] Today, annual world defense expenditures are estimated at about $400 billion; the United States defense budget for 1979 is expected to reach $126 billion.[17]

In the developing nations, the situation is different. Despite recent rises in their military expenditures (which have grown faster than those of the developed nations), it is estimated that African states now allocate only 3 percent of their gross national product to defense, and the Latin American states allocate only 2 percent.[18]

Between 1950 and 1977, the United States military

(Continued on page 226)

[11] *Statistical Abstract of the United States,* p. 876.

[12] *The New York Times,* "International Economic Survey," February 4, 1979, p. 57.

[13] *Ibid.*, p. 58.

[14] U.S. Department of Commerce, *United States Foreign Trade Annual, 1971-1977,* OBR 78-21, June, 1978, p. 31.

[15] *Ibid.*, pp. 24 and 28.

[16] Laurence Martin, *Arms and Strategy: The World Power Structure Today* (New York: David McKay Company, Inc., 1973), p. 255.

[17] U.S. Department of Defense, *Department of Defense Annual Report, Fiscal Year 1979.*

[18] Seymour Weiss, *President Carter's Arms Transfer Policy: A Critical Assessment* (Special Reports on International Affairs, Advanced International Studies Institute in Association with the University of Miami, 1978), pp. 8-9.

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"By means of export promotion efforts, the United States could not only defray a sizable portion of its own oil bill, it could also foster an efficient allocation of world resources—one that mirrors a dynamic interpretation of the principle of comparative advantage."

New Trends in Trade with OPEC

BY RAGAEI EL MALLAKH
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THE rising concern over the level of trade between the United States and other OECD (Organization for Economic Cooperation and Development) oil importers is directly linked to the growing consumption of petroleum by the industrialized consumers. The 1973-1974 price hike, which quadrupled the consumers' oil import bills, unleashed a myriad of fears on the part of the West: dire predictions that the international monetary system would collapse and that there would be a drastic redistribution of wealth from the industrial powers to the raw material producers (the new IEO or new international economic order). The massive inflow of petrodollars to the OECD economies raised specters of takeovers of companies and banks in the importing countries. In the subsequent half decade, the fears have proved largely groundless, despite the fact that the United States balance of payments has worsened.

The impact of the OPEC (Organization of Petroleum Exporting Countries) price increase on the American economy was intensified by the unhappy coincidence of dwindling domestic petroleum production and the fact that the United States was becoming the world's largest single oil importer.[1] Thus, as the value of United States petroleum imports rose, the balances of payments and trade became critical issues. The trends in trade with OPEC can be discerned and assessed in four areas: (1) the growth in trade with the major oil-exporting nations; (2) the balances of trade and payments; (3) the lesson from the upheavals in Iran; and (4) the devising of methods of paying for oil imports.

With the worldwide economic recovery since 1976, oil consumption in the United States has resumed its growth. The trade deficit, of course, will be exacerbated by the price increases announced in the spring of 1979 in response to supply limitations because of the Iranian disruptions.

The initial data for 1978 indicate that while American exports to the major oil exporters have been on the rise, imports from the OPEC states (that is, oil) have been increasing also.[2] Taking the Middle Eastern and North African regions, imports—overwhelmingly of petroleum—from that area accounted for 11.3 percent, 13.5 percent, and 11.2 percent of total United States general imports for 1976, 1977, and 1978, respectively.[3] The 1978 figures reflect the disruptions in trade between Iran and the United States; 1979 should give even greater evidence of this disruption.

To put oil trade within the context of the overall United States trade balance, a few specific cases may be helpful. Saudi Arabian imports from the United States accounted for 2.4 percent of the total value of United States exports in 1976 and some 3 percent in 1977 and 1978; by contrast, 4.3 percent of the value of all United States general imports came from Saudi Arabia in 1976 and 1977, and some 3.1 percent in 1978. For the same three years, OPEC members in the Near East and North Africa alone accounted for 10.4 percent, 11.9 percent, and 10.5 percent of the value of total United States general imports and for 6.6 percent, 7.15 percent, and 7.2 percent of United States exports (including reexports), respectively.[4] As Table 2 reveals, in 1978, four of the leading trading partners of the United States in both exports and imports were members of OPEC; eight years earlier none of them was in that category.

Nonetheless, oil is not the sole villain in the United States trade balance picture.[5] During the first quarter (January-March) of 1978, nonpetroleum imports

[1]However, the industrial giants of Japan and Germany long have been dependent on imports to meet their oil requirements, even before 1973, yet both have healthy balances of payments and trade compared with the United States.

[2]Statistics compiled by the Commerce Action Group for the Near East, January 30, 1979, United States Department of Commerce, Bureau of Census, Report FT 990, "U.S. Trade with Near East/North African Countries, 1976, 1977, 1978."

[3]*Ibid.*

[4]That is, Algeria, Iran, Iraq, Kuwait, Libya, Qatar, Saudi Arabia, and United Arab Emirates.

[5]United States Department of Commerce, *Commerce America*, May 22, 1978, p. 8. United States exports during the same periods (the first quarters of 1977 and 1978) showed a 4.5 percent increase in value ($4.298 billion), with agricultural exports accounting for 21.5 percent and nonagricultural for 78.5 percent.

TABLE 1: Summary of U.S. Trade with OPEC[a]
(in millions of dollars)

	1975			1976			1977			1st Quarter 1978		
	Import	Export	Surplus (Deficit)	Import	Export	Surplus (Deficit)	Import	Export	Surplus (Deficit)	Import	Export	Surplus (Deficit)
Algeria	1,448	632	(816)	2,344	487	(1,857)	3,228	527	(2,701)	901	76	(825)
Indonesia	2,447	810	(1,637)	3,277	1,036	(2,241)	3,756	763	(2,993)	876	219	(657)
Iran	1,579	3,244	1,665	1,631	2,776	1,145	3,032	2,731	(301)	897	867	(30)
Iraq	23	310	287	123	382	259	420	211	(209)	42	61	19
Kuwait	126	366	240	41	472	431	239	548	309	26	110	84
Libya	1,120	232	(888)	2,406	277	(2,129)	4,021	314	(3,707)	911	99	(812)
Nigeria	3,525	536	(2,989)	5,251	770	(4,481)	6,440	958	(5,482)	1,182	273	(909)
Qatar	64	50	(14)	120	85	(35)	285	124	(161)	81	21	(60)
Saudi Arabia	2,987	1,502	(1,485)	5,847	2,774	(3,073)	7,012	3,575	(3,437)	1,404	949	(455)
U.A.E.[b]	781	372	(409)	1,532	425	(1,107)	1,810	515	(1,295)	550	115	(435)
Venezuela	3,869	2,243	(1,626)	3,782	2,628	(1,154)	4,273	3,170	(1,103)	1,003	808	(195)
Total	17,969	10,297	(7,672)	26,354	12,112	(14,242)	34,516	13,436	(21,080)	7,873	3,598	(4,275)

Source: International Monetary Fund (IMF), *Direction of Trade* (Washington, D.C.), various issues, 1970-1978.

[a] Excluding Ecuador and Gabon.
[b] United Arab Emirates.

TABLE 2: Leading U.S. Trading Partners, 1978

Exports				Imports			
Rank 1978	Rank 1970	Country	Value 1978[a]	Rank 1978	Rank 1970	Country	Value 1978[a]
1	1	Canada	28,372	1	1	Canada	33,529
2	2	Japan	12,885	2	2	Japan	24,458
3	4	United Kingdom	7,119	3	3	Germany (West)	9,961
4	3	Germany (West)	6,957	4	4	United Kingdom	6,513
5	5	Mexico	6,680	5	6	Mexico	6,093
6	6	Netherlands	5,683	6	b	Saudi Arabia	5,306
7	b	Saudi Arabia	4,370	7	b	Taiwan	5,171
8	7	France	4,166	8	b	Nigeria	4,714
9	b	Venezuela	3,727	9	5	Italy	4,102
10	b	Iran	3,684	10	9	France	4,054
Total			83,643	Total			103,901

Source: United States Department of Commerce, *Business America,* February 26, 1979, p. 11.

[a] In millions of dollars.
[b] Not among the leading ten U.S. trading partners.

were 27 percent higher than they were in the same period a year earlier; the value of petroleum in total imports declined from 33 percent to 24 percent for the same comparative spans.

The level of trade with the OPEC countries figures prominently in the United States balance-of-payments problem. The current account surpluses and deficits[6] in 1977 showed an OECD deficit of some $30 billion (of which the United States accounted for $18 billion) and an OPEC surplus of $37 billion; the nonoil developing countries registered a staggering $23-billion deficit (down from the 1975 peak of $40 billion).[7]

OPEC's current account surplus rose sixfold from 1973 ($9 billion) to over $61.8 billion in 1974—a clear reflection of the massive oil price increase—fell to $30.8 billion in 1975, rising once again in 1976 to $42.3 billion. The latter increase came more from an expanded level of OPEC petroleum exports than from the impact of price hikes.[8]

The most significant single nation outlet for OPEC investable surpluses has been the United States.[9] The

[6] Current account is defined as the sum of the trade balance, net services, private and official transfers.

[7] Christopher L. Bach, "OPEC Transactions in the U.S. International Accounts, 1972-1977," *Survey of Current Business* (United States Department of Commerce, Bureau of Economic Analysis, April, 1978), p. 21.

[8] The posted price for a barrel of Arabian Light (OPEC's "marker" crude) was $2.898 as of June 1, 1973, rose to $5.119 as of October 16, in that year, to $11.651 by January 1, 1974, and $12.376 as of October 1, 1975; it remained unchanged until January 1, 1977, when it increased somewhat under a two-tier pricing system to be unified in July at $13.656.

[9] Bach, *op. cit.,* p. 31.

distribution of that investment since 1974 has consistently been first into treasury bills, bonds and notes, which account for 40 to 50 percent of the financial assets of OPEC members in the United States. There has been some fluctuation in the amount of investment in United States stocks from 1974 through 1977, although the overall trend is upward; assets in other domestic bonds show a similar pattern. The widest fluctuations appear in commercial bank short- and long-term liabilities; since 1974, short-term placements have been declining as a proportion of total OPEC financial assets in the United States.[10]

Recently, an OPEC sensitivity to differentiations in the yields of financial instruments was evident; previously, the most important aspect was the comparative safety of investment capital in various financial markets. A significant portion of the surplus funds is placed with United States banks or their foreign branches rather than directly with the ultimate borrowers, because of risk and maturity preferences. These banks then extend loans in both developed and developing countries. Moreover, dollar-dominated assets held by OPEC in the Eurocurrency market have been substantial (with some minor fluctuations of late) and exhibit an amazing stability despite the buffeting of the dollar through much of 1978.

In the OECD bloc, a relatively low yet consistent level of OPEC capital surplus has been flowing as investment to Japan and West Germany. In spite of their strong currencies over the past several years, the Japanese and West German capital markets are much narrower than that of the United States, hence the relatively limited funds of the major oil-exporting nations moving into them. Thus, the major factors impacting on the balance of payments of the United States are the trade balance and the level of petrodollar investment flowing back into the American economy. Given the projections for a growing dependence on OPEC imports over the next 10 to 15 years, the trade balance is not likely to witness a marked turnabout vis-à-vis the oil-exporting developing nations; thus, investment of oil-generated funds in the United States is a critical concern.

THE IRANIAN EXPERIENCE

Political upheavals in Iran in 1978 and 1979 clarified basic realities. The "softness" in the international petroleum market that brought a temporary respite from a supply cramp vanished as Iranian crude exports were reduced. The oversupply was, at best, short term, with or without Iranian cutbacks. Moreover, events in Iran reinforced the political and the economic aspects of the output and export levels and pricing decisions of the major oil-producing countries.

It has been suggested that Iran was subjected in recent years to a pace of development that was simply too rapid. In fact, it would be more accurate to assert that the basic problem arose because of the inability of the Iranian economy to translate rapid economic growth (with all the attendant indicators) into real development. Thus, although there has been a rising per capita income, and other statistics have been indicative of economic growth, this growth has resulted in a severe maldistribution of wealth, made worse by the high inflation undermining the middle-income bracket along with less affluent groupings. Economic growth is not always synonymous with development.

This points to the importance of absorptive capacity—the ability of a nation to utilize funds measured by the minimum acceptable rate of return on investment. As the governments of OPEC nations are the primary investors, the evaluation of investment returns includes social as well as economic and political benefits. And the need for funds is directly linked to the level of output, exports and the price of oil.

MASSIVE INVESTMENT

Economic planning in Iran and some of the other major oil exporters over the last decade stressed massive investment in industry—heavy, assembly and intermediate. Yet constraints on absorptive capacity have brought about negative impacts from expenditures—witness the maldistribution of income; the inflation rate; the concentration of industry in a few urban sites with attendant problems in housing, pollution, transportation, utilities; the large numbers of expatriate workers; and social pressures that can lead to political unrest. Decisions to set more realistic development targets in Iran and in other OPEC states probably will bring reduced spending; in turn, lower revenue requirements will mean lower output levels regardless of higher prices. By March, 1979, it was apparent that Iran could no longer be included in the "moderate" camp on pricing within OPEC; her new stance is for reduced lifting with revenues accruing through price mechanisms.

Spending and development decisions in the oil-producing nations are critical for the consuming, importing countries, especially the United States. Iran has been a major market for United States products, the source for some 16 percent of Iranian nonmilitary imports in recent years. During the first 11 months of 1978, American exports to Iran were running approximately 40 percent above the 1977 level.[11] But extensive cutbacks in government-financed projects and, more important, in military hardware purchases will

[10] *Ibid.*, p. 32, table 8. For example, OPEC investment in United States stocks in 1974 was 3 percent of total OPEC financial assets in the country, 26 percent in 1975, 23 percent in 1976, and 20 percent in 1977.

[11] United States Department of Commerce, *Business America*, January 29, 1979, p. 30.

have a sweeping impact on the direction and the composition of Iranian international trade. In the not too distant past, military purchases accounted for 60 percent of expenditures in some years; the estimated 1978-1979 military expenditures level was some $9.5 billion. The United States was a major arms supplier to Iran; the cancellation of armaments contracts will significantly lower the value of United States exports to Iran.

Nor is Iran the only OPEC member that seeks conservation of output to extend the life-span of its petroleum reserves. Libya, Kuwait and Venezuela have already established conservation policies; Qatar has an effective ceiling on production in practice. And in Saudi Arabia, a well-established school of thought aims at decreasing output because of the problems of efficient utilization of the accruing, oil-generated funds, either domestically for development or internationally in the form of investments that will yield sufficient return to offset inflation and dollar fluctuations.

PAYING FOR OPEC OIL

For consumers like the United States that face balance-of-payments and trade problems with OPEC members, the Iranian case should be noted. Despite their gloomy predictions of impending disaster because of oil import bills for the importer nations, economists have been surprised at how much OPEC states have been able to spend. Trade and payments imbalances have thus far proved manageable. However, merely selling products and services—the more the better—is not the only or perhaps even the best answer. Increasing trade to pay for oil has led to the type of excessive growth that increased economic pressures in Iran. Instead, United States exports could be directed toward increasing the absorptive capacities of the countries involved, supporting actual development rather than undisciplined economic growth.

Export promotion could form the core of a United States strategy to finance current and additional oil imports from OPEC. Such a strategy needs guidelines as to the most profitable and appropriate avenues for a United States export drive. By means of export promotion efforts, the United States could not only defray a sizable portion of its own oil bill, it could also foster an efficient allocation of world resources—one that mirrors a dynamic interpretation of the principle of comparative advantage.

This is especially important because OPEC imports of consumption goods and luxury articles appear to have attained a plateau, thus rendering capital goods, intermediate inputs and raw materials the major fields of potential import growth. The United States goal of expanding exports to OPEC countries in the latter categories and in services (including the transfer of know-how and modern technology) should be pursued in a way that discourages autarkic tendencies in OPEC economies and furthers outward-looking, trade-oriented policies. Trade policy and energy policy go hand in hand. The oil-exporting countries are growing increasingly aware of the pitfalls in accruing extensive surplus funds and of massive injections of investment when substantial absorptive capacity constraints exist.

CONCLUSION

For the United States, four objectives could be suggested: reducing the level of petroleum imports; devising means of moderating nondomestic oil price increases; expanding exports of American goods and services to the oil-exporting countries; and expanding and regulating recycled, oil-generated foreign funds in the United States. The conservation of consumption is the crux of the drive to reduce petroleum imports. Not only would lower demand serve to diminish the import bill (or keep it from rising drastically), consumer conservation meshes well with the goal of conservation of petroleum output on the part of OPEC states.

These objectives need not involve confrontation; mutualities of interest could be emphasized. Better control of inflation in the industrialized countries (thereby keeping prices down on manufactured exports) coupled with a nonconfrontational attitude on the part of consuming nations might encourage moderation in OPEC oil price hikes. OPEC nations have maintained that inflation via imported capital goods has seriously eroded OPEC's purchasing power, making price increases inevitable.[12]

Care and coordination in the types of exports to OPEC members should advance the oil states' absorptive capacities through stable development. Lastly, foreign investment has, over the years, played a major role in the economic development of the United States; there is no reason for petrodollars to be viewed in other terms.

Global economic stability and rational resources management—especially in petroleum—are vital to both OPEC and its trading partners; the former requires the skills and capital goods of the latter to develop. Conversely, the viability of the industrialized bloc rests on access to sufficient petroleum supplies until the transition to other alternative energy sources can be made. ■

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[12] Mansoor Dailami, "Inflation, Dollar Depreciation, and OPEC's Purchasing Power," *Journal of Energy and Development*, spring, 1979.

UNITED STATES TRADE WITH CHINA

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assurances made by that country's government.[12] Under the proposed system, the waiver extension period would be lengthened to five years.

In assessing China's ability to pay, one should note that in addition to the deal with Japan, which by the end of the 1980's might involve several billion dollars worth of more or less guaranteed bilateral exchanges, China's exports to Hong Kong bring in a steady and sizable flow of hard currencies. In 1977, for example, China's positive trade balance with Hong Kong was $1.7 billion.

Credits. The magnitude of the modernization drive makes it very probable that the conservative international payments policy pursued by China since the early 1960's will be rethought. Until recently, China avoided deficits on her balance of trade; whenever such deficits arose, they were quickly offset by surpluses in subsequent years achieved through import restrictions. Since the modernization plan calls for an uninterrupted flow of imports, the policy of sudden import cuts to correct the balance of trade will no longer be appropriate. In the past, China did not make use of long-term loans from foreign banks or government-related financial institutions. Because of the heavy capital import program, this policy is now being reappraised, and there is a strong likelihood that China will resort to substantial long-term foreign borrowing over the next decade or so. Here, too, United States government action is constrained by legislation that ties the extension of Export-Import Bank credits to the uninhibited emigration of the nationals of the country to which loans are to be extended.

In addition to borrowing, China is currently contemplating various other arrangements to support her massive import plans. These include barter deals, self-liquidating purchase arrangements under which the exporter receives payment from the output of the project he has supplied or helped to develop, and joint ventures where the foreign supplier holds a minority ownership interest in the project and shares in the risks as well as the profits. Because of China's ideological aversion to foreign equity participation in her economy, it has been proposed that the Chinese side buy out the foreign partner's share by installments over a period of years. Assuming that China buys $3 billion annually in plant and equipment between 1978 and 1982 and uses 10-year loans at 7 percent annual interest, some calculations show that the debt service to export ratio from 1981 to 1985 would range from 4 to 11 percent, and, if downpayments are included, would go as high as 15 percent. This is well within what are considered to be "safe" debt limits.

"Invisible" revenues. China receives some $500 million in hard currencies annually from remittances by overseas Chinese to their families on the mainland. Thus, in 1978, while the balance of commodity trade showed a deficit of roughly $300 million, the balance of overall payments revealed a small surplus, largely because of income from remittances. With the help of American hotel chains, China is planning to develop tourism as a major earner of hard currencies. Over 15,000 hotel rooms at a price of $1.5 billion are to be constructed by 1985. In recent years the Chinese have also stepped up their investment in hotels and real estate in Hong Kong.

The tentative conclusion seems to be that, provided the Chinese do not continue to act like children in a candy store, their present import program can probably be paid for with a little trimming. Whether the imports can be absorbed is another matter. The technology being imported is of a very high order of sophistication. To reach the desired output and productivity levels, the new technology calls for supporting services of all kinds, including the services of scientists, engineers, managers and workers equipped with the skills needed to operate and maintain the new gadgets and market the output. China is very short of skilled manpower, partly because of the educational excesses of the last decade. More important, her economic institutions are not at present geared fully to absorb the proposed massive inflow of advanced technology. Her planning apparatus is patchy; managerial procedures leave a lot to be desired; and the system of motivating the labor force appears to be inadequate. Important changes are needed to modernize not just the people and machines but the economic system within which they work.

TRADING WITH A TOTALITARIAN GOVERNMENT

Americans are ambivalent about the benefits and costs of trading with totalitarian governments in general, and Communist governments in particular because of technical and moral considerations.

The technical problem arises from the comprehensive government control of China's foreign trade. The individual American exporter rarely conducts negotiations with the end user of his product in China. Usually, he meets with representatives of one of several foreign trade corporations under the Ministry of Foreign Trade (although representatives of end users may be present at the negotiations). In essence, the American seller competes with other sellers from his own and other countries, while facing

[12]Philip T. Lincoln, Jr., and James A. Kilpatrick, "The Impact of the Most-Favored-Nation Tariff Treatment on U.S. Imports from the People's Republic of China"; and Helen Rafell, Robert E. Teal, and Cheryl McQueen, "The Impact of U.S. Most-Favored-Nation Tariff Treatment on PRC Exports," in *CEPM*, pp. 812-839, 840-850.

a single buyer. In addition to this inconvenience, there are numerous other negotiating problems touching on contractual issues such as the arbitration of disputes, the inspection of merchandise, insurance, patent protection, pricing, and so on. Above all, the highly bureaucratized process calls for considerable patience and investment in time on the part of the potential exporter.

Reservations have been expressed in some quarters about the wisdom of selling advanced technology to regimes whose sociopolitical systems are incompatible with American notions of individual freedom. The issue is of special urgency in connection with the Soviet Union, whose military power rivals that of the United States and whose expansionist policy has been particularly noticeable in recent years. But the question is not without relevance to America's China trade. It is a complex issue that cannot be given justice in an essay devoted primarily to the positive economic aspects of Sino-American relations. One may only speculate that the use of trade as a weapon for the furtherance of what one country, however powerful, regards as the correct moral posture cannot be very effective in the absence of international coordination. In the case of China, Japanese and West Germans—not to mention Canadians, Australians, French, British, and Dutch—are waiting at Peking's doorstep clamoring to do business.[13]

There is no unanimity in the United States on whether this country should sell food and up-to-date technology to China's Communist regime and provide credits and other facilities toward that end. And there is disagreement within the Chinese Communist leadership on whether to buy these items from the capitalist powers in the quantities and at the huge financial cost involved. Some leaders in Peking are not willing to go deeply into debt to the former treaty powers (the Soviet Union included), and there is doubt about the wisdom of massive technology transfers, at the expense—as some see it—of self-reliance. The voices of dissent with regard to the current import-oriented policy have been muted since the death of Mao and the arrest of the radical leadership, but they have not been silenced. To legitimize the current trend in ideological terms, Lenin is often cited:

> Theoretically . . . it is absolutely clear that it would be to our advantage to pay off European capital with a few score or hundreds of millions, which we could give it in order to augment, in the shortest possible time, our stock of equipment, materials, raw materials and machinery for the purpose of restoring our large scale industry.

The capitalists should be used, Lenin argues, to build socialism: "We should not begrudge the capitalists a little profit, if we can reach this [objective]." ■

[13]Arthur A. Stahnke, *China's Trade with the West: A Political and Economic Analysis* (New York: Praeger, 1972).

TRADE WITH WEST EUROPE AND JAPAN

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Other United States industries that have also voiced major complaints about low-cost imports from Japan are the producers of television sets. To curb Japanese shipments of television sets, the Japanese government has accepted voluntary restrictions on such shipments by signing a so-called Orderly Marketing Agreement (OMA). OMA's have become a popular device for curbing imports that threaten specific American industries and their employees. They are less onerous than the unilateral imposition of quantitative restrictions or other NTB's.

A problem impeding the return to a trade equilibrium between the United States and Japan is the structure of the Japanese economy and its distribution system, which make it difficult for American and other exports to penetrate the Japanese market. The Japanese government recognizes the problem and is doing its best to "restructure" its economic patterns, but acknowledges that progress will not come quickly. Japanese leaders are aware that Congress might take unilateral action to stem Japanese imports into the United States, perhaps by imposing an import surcharge. The Carter administration opposes such action, perhaps because it would violate the principle of liberal trade, but also because the United States must take into account the vulnerabilities of Japan's political and security situation.[16] In other words, general United States foreign policy considerations may well place constraints on the stringency of American trade policy measures.

In addition to the variable levies on agricultural imports already discussed, other NTB's that restrict United States exports to West Europe are the imposition of value-added taxes on American goods shipped; special, rather heavy taxes on automobiles with large horsepower engines; particular labeling requirements; a variety of health, technical, and safety standards; and preferential measures for home products when public authorities issue bids for purchases of material. The flow of some goods, certain textiles and some processed food items, is also affected by quotas (quantitative restrictions), but their impact on overall trade between the United States and West Europe is minor.

EFFECTS OF THE ARMS TRADE WITH NATO

In 1977, the total defense equipment purchases of the European member states of NATO exceeded $7

[16]See Muruoka Kunio, *Japanese Security and the United States* (London: International Institute of Strategic Studies, 1973); and Kai Wakaizumi, "Consensus in Japan," *Foreign Policy*, vol. 27, 1977, p. 1.

TABLE 2: U.S. Deliveries of Military Equipment to NATO-Europe (millions of dollars)

	Military Equipment Purchases Total 1977	U.S. Military Equipment Deliveries in 1977	
Belgium	297.5	6.54	
Denmark	331.5	22.01	
France	N.A.	3.37	
Germany, Fed. Rep.	2,200.0	342.58	
Greece	N.A.	243.81	
Iceland	N.A.	0.01	
Italy	734.4	41.15	
Luxembourg	insignificant	0.01	
Netherlands	721.0	24.64	
Norway	156.2	33.24	
Portugal	13.8	1.45	
Turkey	N.A.	38.22	
United Kingdom	2,616.0	108.84	
TOTAL	7,070.4	865.87	(12.3%)

Source: adapted from Foreign Affairs and National Defense Division, Congressional Research Service, Library of Congress, *United States Arms Transfer and Security Assistance Programs,* March 21, 1978, Appendices II and VI; and *Agence Europe, Selected Statistics,* December 11, 1978.

billion (see Table 2). The term military "equipment" lends itself to differing interpretations, but definitely includes arms and various defense-related services.[17] Obviously, this is a tempting export market for American arms manufacturers, who shipped almost twice as many arms worldwide (nearly $39 billion worth) during the period from 1967 to 1976 as did all other arms producers combined, and whose shipments to NATO Europe exceeded $9 billion. Table 2 shows that in 1977 United States shipments of military equipment to NATO Europe represented 12.3 percent of NATO's total purchases. Part of these shipments, to Greece and Turkey, were made in the form of grants under the United States Military Assistance Program.

When related to overall United States exports to most West European countries, the share constituted by United States military equipment shipments is small. These shipments to EEC member states only, all NATO members except Ireland, total $549.1 million (see Table 2), which is only about 2 percent of the total American exports to the Community. Moreover, this percentage is less than half of the 4.5 percent that all arms transfers represent in relation to total American exports.[18] While Europeans perceive the American armaments industry as predominant in NATO, in fact only high technology weapons, like airborne missiles, precision-guided weapons, and certain types of aircraft, make up the bulk of American arms shipments to all of NATO Europe. With respect to conventional arms, West Germany, France, Italy and the United Kingdom are basically self-supporting and only the remaining EEC countries import many of these weapons from the United States.[19]

The result is that (1) the equipment of the NATO countries' armed forces is neither standardized nor for the most part interoperable, and (2) resentment about American predominance in the arms supply field has been growing, aggravated by United States reluctance to purchase European-made arms even if they are equal or better in quality. The United States rejection of the German-produced Leopard tank in the mid-1970's is an example. To change this situation, various efforts are currently under way by European leaders to organize transnational coordination schemes for the production of weapons in NATO Europe and to create a "two-way street" across the Atlantic for NATO arms procurement. The Eurogroup, formed in 1968 by European member states participating in the integrated military structure of NATO,[20] had in mind an improved European contribution to the common defense, better coordination of arms procurement, and increases in European defense expenditures for NATO.

Since France withdrew from NATO's integrated structure in 1966, it was considered essential to create an organization outside NATO in which France could be included and which could aim at the same objectives as the Eurogroup. The result was the establishment of the Independent European Programme Group (IEPG) in 1976. Various projects dealing with collaboration among European nations in the procurement of defense equipment were undertaken, including a tactical combat aircraft, tank ammunition, and a short-range antitank weapon; but, so far, real progress has been very slow.[21]

The Western European Union has also entered the "two-way street" debate favoring a greater European involvement in arms production, and suggestions have been made to give the European Community authorities a role in defense policy. It has been argued that only through the use of the EEC's common industrial policy will it be possible to attain effective cooperation in European armament procurement. Neither NATO

[17]If the definition is substantially broadened to include commercial telephone equipment, school buses for U.S. forces in Europe, fork lifts, etc., 1977 would have been a deficit year for the United States in defense-related goods shipments according to a report of a subcommittee of the House Armed Services Committee. See *Atlantic News,* no. 1804, March 7, 1979, p. 1.

[18]See U.S. Arms Control and Disarmament Agency, *World Military Expenditures and Arms Transfers 1967-76,* July, 1978, Fig. 15, p. 10.

[19]See Julian Critchley, "A Community Policy for Armaments," *NATO Review,* vol. 27, no. 1 (February, 1979), pp. 10-14.

[20]These countries were Belgium, Denmark, West Germany, Greece, Italy, Luxembourg, Netherlands, Norway, Portugal, Turkey, and the United Kingdom.

[21]*Atlantic News,* no. 1102, February 28, 1979.

nor the IEPG could fully succeed in this endeavor unless they were able to use the unique potential of the Community to organize and structure the industrial aspects of armaments production.[22]

If all these plans materialize, the export of United States arms to NATO Europe and perhaps third countries may well be impaired, and American armed forces may have to purchase more European-produced weapons and ammunition. But the prospects for such developments are clouded. France has already declared her opposition to giving new competences to the EEC in the sphere of defense,[23] and the procurement coordination mechanisms are moving ahead very slowly in spite of their reasonableness. A major reason is the strong national flavor pervading the arms industry in all countries, including the United States. Large sums of money are wasted on duplication of weapons, ammunition, and communication systems, as well as on research and development for these items, with resulting low levels of efficiency if these weapons should be needed in times of crisis. This state of affairs has been denounced for years by NATO's supreme commanders and has been contrasted with the advantage of the arms standardization enforced by the Soviet Union on the Warsaw Pact nations. And indeed, eventually the "two-way street" concept and better procurement coordination may gain acceptance. In early 1979, the Pentagon approved the purchase of a West German 120 mm gun to be fitted on the new XM-1 American-built tank, an important step toward the standardization of military equipment.[24]

SHOULD UNITED STATES TRADE POLICY TOWARD WESTERN EUROPE AND JAPAN BE CHANGED?

If we add the United States trade surplus with West Europe (EEC and EFTA) and the deficit with Japan in 1977, a substantial deficit of $2.4 billion emerges. Despite major efforts to the contrary, the United States trade balance with Japan tends to show increasing deficits. Will the Tokyo Round negotiations, currently drawing to a successful conclusion, ameliorate this situation?

Although the Tokyo Round multilateral trade negotiations involve 98 developed and developing nations, the United States and the EEC are, again, the main actors, and Japan is the third most important party. Most actual negotiations take place in Geneva under the auspices of GATT. The tentative target is a 40 percent reduction of tariff with 25 percent to be implemented automatically over a period of five years, while the second 15 percent would be subject to specific economic conditions, also spread over five years. But tariff reductions will be only one part of the package; other parts will be an attack on export subsidies, a new code for customs evaluation, a search for new compromises on agricultural issues, assured adherence to NTB provisions, and the introduction of selective safeguard clauses. In fact, tariffs in United States trade with West Europe and Japan have been reduced so often that they constitute now only minor obstacles to trade. On the other hand, NTB's remain the major source of complaints.

Various subsidies employed by some West European countries and Japan have been frequent irritants for American exporters. For example, subsidies given by the EEC to aid the exports of certain farm commodities have impaired United States shipments to third countries. The NTB code embodied in the forthcoming trade agreement prohibits export subsidies, increases the discipline on the use of domestic subsidies, and sets up rules for countries to take countermeasures against subsidized products that adversely affect their trade. As a major concession by the United States, the code stipulates that the injurious effect of an export subsidy must be proved before countervailing action can be taken. The EEC and Japan had been complaining that, in accordance with current United States law, the Treasury Department imposed penalty duties on subsidized shipments without an injury test.

Another problem that has plagued United States-West European relations has been the "American Selling Price" system, whereby duties are levied on the basis of American wholesale prices rather than on the actual cost of an imported item. The new code attempts to provide a standard method of determining the duties collectible on an import, thereby protecting the exporter from arbitrary increases in duties.

New rules will also reduce the extent to which governments have been allowed to discriminate in favor of domestic suppliers for items purchased for government use. Since the United States procurement system, including the "Buy American" procedures, is already less restrictive than that of most European countries and Japan, American exports are likely to benefit from the code.

Finally, GATT safeguard regulations allowing a country to impose trade restrictions temporarily if a domestic industry is exposed to intense import competition have been redefined. Retaliation against the imposition of safeguards that adhere to the new rules is generally prohibited. But safeguards must be applied equally to all GATT members and only under certain conditions can they be employed selectively against one or a few countries.

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[22]See Egon Klepsch, *Two-Way Street: USA-European Arms Procurement* (New York: Crane Russak, 1979); and Critchley, *op. cit.*, pp. 13-14.

[23]*Atlantic News,* no. 1095, February 2, 1979, p. 2.

[24]*Atlantic News,* no. 1103, March 2, 1979, p. 3. There has also been a successful joint transatlantic production venture whereby parts of the F-16 fighter planes are manufactured in Belgium, Denmark, the Netherlands, and Norway. See *Wall Street Journal,* February 5, 1979.

While new rules and the additional tariff reductions may be helpful in increasing future United States exports to West Europe and Japan, other factors may be counterproductive. The preferential agreements between the EEC and EFTA countries, the Mediterranean countries, and the Lomé affiliates are likely to favor trade among the agreement partners and hold down American exports to those countries. The newly established European Monetary System, closely linking the currencies of all EEC countries except Great Britain and stabilizing their exchange rates, may well be an element promoting intra-EEC trade and may harm the expansion of United States exports.

As for Japan, all United States endeavors to alter the unfavorable trade balance have so far been in vain. The United States Department of Commerce has gone to great lengths to stimulate more intensive efforts on the part of American producers and exporters to penetrate the intricate Japanese market. But the response has been less than enthusiastic, partly because the enormous, easily accessible United States market satisfies most American manufacturers. At the same time, Japanese importers drive very hard bargains even when it comes to such necessary energy sources as coal. With respect to reversing their burgeoning trade surplus, the Japanese counsel "patience." All this could well lead to an early application of the new safeguard system restricting Japanese imports through quotas, special reference prices for duty valuation on selected items, and additional OMA's.

Does this mean that the United States would be better off returning to an "enlightened protectionism" in the face of the flood of Japanese imports, perceived discrimination manifested by CAP, and possible trade diversion as a result of the EEC preferential agreements? Without doubt, pressures in that direction are building up in Congress, which must approve implementing legislation for the new code. Moreover, protectionists have a tremendous advantage, because a steel worker with a job to lose speaks louder than 10,000 consumers who may have to pay more for goods produced from steel. But much more is at stake. As a *New York Times* editorial correctly points out: "The hard-won consensus is that in the long run, open trade means more jobs and higher living standards."[25] ■

[25] *The New York Times,* March 6, 1979.

UNITED STATES TRADE WITH THE DEVELOPING WORLD

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assistance program, which exceeded $126 billion, extended to many nations in Europe, Africa, Asia and Latin America. In 1977 alone, some 77 nations together with international organizations were the recipients of United States arms sales that totaled some $11 billion. Although some developing countries have developed arms production capability, most developing countries are totally dependent upon arms from abroad. Since United States disengagement from the Southeast Asian war, Iran, Israel, Jordan and Saudi Arabia, for instance, have absorbed 60 percent of United States military exports; NATO countries, Japan and South Korea, have accounted for one-third of United States military exports. Conscious of the adverse impact of arms shipments to some developing nations, United States policy on overseas transfers of arms has undergone some modification. The International Security Assistance and Arms Export Control Act of 1976 has imposed congressional scrutiny on military assistance programs and on arms transfers.[19]

The actual or imagined danger of the militarization of developing nations beyond their security needs is enormous. If the growth of imported arms continues its exponential course, the developing countries will outstrip their ability to overcome economic, political and social handicaps. In their devotion to arms, civilian aristocracies and military elites will find themselves more isolated from people who prefer bread to weapons. Lacking democratic institutions and processes of advice and consent, many leaders of the developing nations are convinced, shortsightedly, that it is to their advantage to suppress by force the movements aimed at various reforms.

Recent experience in Iran reveals the error of their calculations. Even a most modern army cannot depend on arms alone to defend itself against a popular revolt. Military power in the developing nations should go hand in hand with democratic processes, if possible. The amelioration of internal ills must be given priority over extensive arms imports, which increase the possibility of deadly regional conflicts and immeasurably diminish the hope for an orderly developing world. Diplomatic initiatives to restrain international trade in armaments, together with negotiated solutions of regional conflicts, would serve the interest of global peace.

In an address before the thirty-second United Nations General Assembly on October 4, 1977, the President of the United States stated:

> The conventional arms race both causes and feeds on the threat of larger and more deadly wars. This levies an enormous burden on an already troubled world economy . . . . we hope to work with other supplier nations to cut back on the flow of arms and to reduce the rate at which the most advanced and sophisticated weapons technologies spread around the world.[20]

[19] *Department of Defense Annual Report.*

[20] Report by the President to the Congress for the year 1977, *U.S. Participation in the UN* (Washington, D.C.: Government Printing Office), pp. 318-319.

A policy of morality, rather than the politics of arms, finds recognition and support in the developing world, where the majority of people want to develop in a democratic environment. It should be made difficult for countries that show an increased capacity for institutional violence, repression and authoritarian practices to receive United States economic assistance or to enter into trade agreements with the United States. ■

UNITED STATES TRADE POLICY

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incentives to sell. Between 1965 and 1974, the United States sold some 49 percent of all the arms exported in the world, and these sales had an important positive effect on the United States balance of payments. They also created about 400,000 jobs and led to considerable profits in American defense industries. For example, from 1962 to 1967, the FMS program alone produced $1 billion in profit for United States firms and provided 1.4 million man-hours of labor.

Second, there has been a major shift in recipients. In general, the pattern of United States arms transfers has shifted from NATO countries in the 1950's to Asia in the 1960's to the Middle East in the 1970's. For example, until 1964, about 80 percent of all United States arms sales went to Europe, Canada, Japan and Australia; by 1974, these countries were receiving only 14 percent of United States arms exports. This pattern mirrored changing foreign policy motivations; United States weapons transfers focused less on the American-Soviet strategic balance and more on regional conflicts and internal threats in recipient nations. It also reflected the impact of increased demands for arms in the Middle East and the Persian Gulf. In constant dollar terms, almost all growth in United States arms transfers between 1965 and 1974 can be attributed to orders from states in the Middle East and the Persian Gulf.

A third trend is seen in the types of United States weapons sold abroad. Under MAP transfers, much of the military hardware sent abroad was not in current United States use. Recent arms sales, however, include the most sophisticated weapons and equipment in United States arsenals. In the words of a State Department official, the long-term impact of these weapons transfers "will change the face of world politics"; many states throughout the world will possess much the same arms as the major powers.[12]

For various political, economic, and military reasons, the formulation of effective constraints on arms sales has proved extremely difficult. More and more countries want to buy arms and many states are willing to become suppliers. The incentives for expanded sales are strong, particularly since it takes considerable national self-restraint and international coordination to minimize long-term risks and repercussions. Thus American policy has been guided by the general principle that "any restrictions on exports for . . . foreign policy purposes bear a heavy burden of proof." In the complex and changing realm of arms sales, this type of proof has been hard to muster.[13]

MULTINATIONAL CORPORATIONS AND U.S. TRADE

American multinational corporations (MNC's) have become a major expression of United States involvement in international economic relations, and they strongly shape evolving conditions affecting United States trade flows. American multinationals are highly diverse United States firms that operate production or service facilities abroad. The motivations and dynamics for pursuing such direct foreign investments (DFI) are varied.[14] But over time, United States firms have significantly increased their overseas operations—the book value of American direct foreign investments grew from $7 billion in 1946 to over $110 billion in 1973, and the United States has become by far the most important home country of multinationals.

The locus and composition of direct foreign investments by American firms have also changed dramatically. Multinational corporations have emphasized more and more investments in West Europe, Canada, and other industrial states—amounting to over 68 percent of all American direct foreign investment by 1975, whereas Latin America had been the traditional primary host. Moreover, much post-World War II investment has gone into advanced industrial sectors in addition to the traditional areas of raw material production, mining and manufacturing. The relative importance of overseas activities for United States

[12]Christopher, *op. cit.*, p. 3.

[13]This quotation is from *ibid.*, p. 6. This section has drawn substantially upon Leslie H. Gelb, "Arms Sales," *Foreign Policy*, Winter, 1976-77. David J. Louscher, "The Rise of Military Sales as a U.S. Foreign Assistance Instrument," *Orbis*, Winter, 1977, and *World Military Expenditures and Arms Transfers, 1967-1976*, U.S. Arms Control and Disarmament Agency, Publication 98, Washington, D.C., July, 1978. An initial step toward coordinated multilateral restraint on arms transfers occurred at the 1978 U.N. Special Session on Disarmament.

[14]Explanations of multinational behavior are far from conclusive. One typology categorizes MNC's as primarily resource seekers, market seekers or efficiency seekers. See U.S. General Accounting Office, Report to the Congress, *U.S. Foreign Relations and Multinational Corporations: What's the Connection?* Washington, D.C., August 23, 1978 (PAD-78-58), pp. 4-6. See also *ibid.*, pp. 9-10, for a listing of factors motivating direct foreign investments. See also C. Fred Bergsten, Thomas Horst, and Theodore H. Moran, *American Multinationals and American Interests* (Washington, D.C.: Brookings Institution, 1978), p. 6, for reference to different explanations for MNC behavior, like the product life cycle and industrial organization and international differences on return to capital.

multinationals has grown similarly. By 1975, foreign investments accounted for over 19 percent of all plant and equipment expenditures by American multinationals, and foreign earnings were over 26 percent of total earnings in 1974—a jump from 8.6 percent in 1957. For eight of the top ten United States industrial firms, foreign operations produced income levels that reached one-half or more of all their earnings in recent years.

By the early 1970's, the United States had become more a foreign investor and overseas producer than an exporter of domestic goods. Indeed, in 1973, over 80 percent of foreign sales by American multinationals came from overseas production and less than 20 percent from United States exports. Furthermore, over 20 percent of all United States exports in 1970 were actually intracorporate transactions, a trend that has steadily risen.[15] The United States government has generally supported multinational activities in a variety of ways—from tax and investment provisions that encourage direct foreign investment to trade policies that offer liberal import treatment of goods produced or assembled abroad by United States multinationals. But the overseas operations of American multinationals have generated political pressures in the United States for government regulation to ensure more domestic gains.

One major area of contention has been the effect of American multinationals on United States trade flows and competitiveness. Are foreign investments export-creating or export-displacing and do they leave the overall American trading position more vulnerable? Many of these questions have been raised in the context of deteriorating United States trade balances beginning in the late 1960's. In the 1970's, almost one million trade-related jobs were lost while the overseas activities of United States multinationals spiraled. Proponents of foreign investments argue that increasing direct foreign investments are defensive against foreign competition. As they perceive it, the issue is not United States exports versus United States foreign investments, but American direct foreign investment in relation to local investments abroad, which still compete with or displace United States exports. Indeed, proponents state that direct foreign investments and exports are complementary and that, in many circumstances, foreign investments lead to increased exports. Moreover, supporters of the multinationals note that direct foreign investments are often financed substantially abroad, thus increasing the assets of United States firms and flows of foreign earnings with little cost to the United States.

Critics of the multinationals assert that major consequences of United States foreign investments include the displacement of American exports and the erosion of United States trade competitiveness. Multinationals have tended to be the most active exporters, and over time are producing more and more of their goods abroad. In addition, direct foreign investment is said to displace United States exports in third country markets, as overseas production sites eventually develop their own export capacities. It is also argued that in the long run foreign investments by United States firms displace American domestic investments, causing net productive gains abroad and net losses in domestic economic development. The result over time becomes a deterioration in the competitive position of the United States in world trade—a trend that is said to be evidenced in declining United States trade balances and relative rates of economic growth and technological innovation.[16]

Given the complexities and diversities of multinational behavior, few conclusive statements can be made about their overall relationship to domestic trade flows. Recent evidence indicates that much depends upon the particular industry, the level of foreign investment, and the period under analysis.[17] The impact of growing multinational activity on trade policy has also been mixed. On the one hand, American multinationals have been among the strongest supporters of a liberal trade posture. This position reflects multinational concern about the costs of trade protection to intracorporate transactions and fears of possible related developments, like controls on foreign investment and the increased involvement of foreign multinationals in the United States home market. On the other hand, the overseas activities of American multinationals and their perceived injurious effects on the domestic economy have mobilized groups like organized labor to seek increased trade protection and restrictions on multinational operations. This response was seen in the Foreign Trade and Investment Act (Burke-Hartke bill) introduced into Congress in 1972. Indeed, much current United States trade policy can be explained by the struggles between these competing political forces.[18]

CURRENT MULTILATERAL TRADE NEGOTIATIONS

Since World War II, international trade relations have been characterized by unprecedented levels of multilateral cooperation, liberalization, and expansion. Despite these successes, current trade policies in the United States and elsewhere reflect an underlying sense of crisis. Emerging trade problems seem to strain the capacity of existing international arrangements to meet national needs, and surging protectionist pressures have appeared in most coun-

[15]See *U.S. Foreign Relations and Multinational Corporations*, p. 14, Bergsten, Horst, and Moran, *op. cit.*, pp. 7-13, 22-31, and Robert Gilpin, *U.S. Power and the Multinational Corporation* (New York: Basic Books, 1975), pp. 11-19.

[16]*Ibid.*, pp. 174-81, 189-97, for a more complete discussion of these arguments and viewpoints.

[17]See Bergsten, Horst, and Moran, *op. cit.*, pp. 45-98.

[18]*Ibid.*, pp. 298-300.

tries. Many related factors account for these trade difficulties—monetary instabilities, unresolved non-tariff restrictions, lagging economic conditions, domestic resistance to trade adjustment and structural change, competing national priorities and international policy conflicts.

These protracted trade problems led almost 100 countries to enter into a seventh set of multilateral trade negotiations (MTN) beginning in 1973. In effect, these GATT negotiations marked a new era in trade relations for the United States and the rest of the world. Amidst difficult and changing economic conditions, these negotiations have focused significantly on devising new ground rules and codes of behavior, attempting to insure more equitable outcomes of trade relations between and within member states. Indeed, for the United States and other countries, "fair" trade has joined—or replaced—"free" trade as a dominating political symbol in foreign economic policy-making.

These trade negotiations, which are scheduled to be concluded in 1979, have proceeded on a slow and turbulent course. Basically, this agonizing pace derives from the vast and unaccommodated changes that have occurred in global trading patterns, from the increased domestic sensitivities to international trade flows, and from the realization that these negotiated accords will have important implications for the conduct of international trade relations into the 1980's and 1990's. ■

UNITED STATES-SOVIET TRADE

(Continued from page 208)

United States-Soviet trade difficulties are more or less typical of the United States experience in dealing with other totalitarian regimes. Restrictive United States legislation affects United States trade with East Europe as well as trade with the Soviet Union.[10] Indeed, the bulk of the foreign trade of the East European countries (with the exception of Yugoslavia) is conducted with other Communist regimes in accord with arrangements made in the Stalin era.

Nonetheless, like the Soviet Union, the countries of East Europe seek better economic performance; in short, they are moving toward intensive economic growth, focusing on economic reform and the expansion of trade with the West, especially in pursuit of advanced technology.

The constraints on the expansion of this trade are familiar. It has proved difficult to reform the foreign trade mechanism where central directive is to be partially replaced by market directive. Even in nations like Hungary, where serious and important reform has been attempted, there is disagreement as to its effectiveness. Where United States policy has been modified, for example in the granting of most favored nation status to Yugoslavia and Poland or in the case of special arrangements with Romania, fundamental payments problems persist. As is true of the Soviet Union, the countries of East Europe have not been wholly successful in penetrating Western markets.[11]

In sum, United States trade policy has probably had only a relatively modest impact on the extent of United States trade with planned socialist economic systems.[12] This is not to say that United States policy has been appropriate in all cases. What is important, however, in explaining United States trade with planned socialist systems, is the network of basic economic forces that prevail, including the differences in their economic systems and their different foreign trade mechanisms.

The volume of United States-Soviet (and Soviet bloc) trade will probably continue to grow sporadically. For both political and basic economic reasons this volume will probably remain below its "potential," while Americans try to figure out what they need from the Soviet Union, and Soviet planners try to figure out how to make Western technology generate more rapid economic growth in the Soviet system. ■

[10]For recent evidence on U.S. trade with East Europe, see U.S. Congress, Joint Economic Committee, *East European Economies Post-Helsinki* (Washington, D.C.: U.S. Government Printing Office, 1977).

[11]Thus, between 1973 and 1976, the East European hard-currency debt is estimated to have grown from $8.5 billion to $19.1 billion. See *ibid.*, p. 22.

[12]This generalization does not hold in all cases. Clearly U.S. trade with Cuba would grow sharply in the absence of restrictive U.S. legislation.

ARMS, OIL AND THE DOLLAR

(Continued from page 200)

the question of how dependent the United States economy is on arms production and arms exports. One can see the economic importance of the arms trade for the world, the United States, the Soviet Union and various groups of other countries by looking at some data for the 10-year period 1967-1976. Arms trade was a small portion of total trade during the period, and it declined slightly from more than two percent at the beginning of the period to 1.5 percent at the end of the period. Arms exporters live almost entirely in Europe (including the Soviet Union) and North America (95 percent), and the major national exporters were the United States (48 percent) and the U.S.S.R. (28 percent). Even though the United States exported more arms than the U.S.S.R., total foreign trade of all kinds is less important to the Soviet economy, and arms exports comprised only 10 percent of their total exports in 1976 while arms exports were only five percent of total United States exports in that year (see Table 5). In addition, compared to, say, automobiles, arms exports afford

TABLE 5: The Relative Importance of the World Arms Trade*

Year	World Arms Exports Relative to Total Exports	Arms Exports Relative to Total Exports for the U.S.A. and U.S.S.R.: U.S.A.	U.S.S.R.
1967	2.4%	7%	20%
1968	2.2	8	15
1969	2.2	9	9
1970	1.9	7	12
1971	1.8	8	12
1972	2.4	8	18
1973	2.3	7	24
1974	1.4	4	15
1975	1.4	4	11
1976	1.5	5	10

*In 1976, Europe (including the Soviet Union) plus North America accounted for 95 percent of world arms exports. The major national exporters are the U.S.A. and U.S.S.R. Ten-year annual averages (1967-1976) for arms exports are: World, $7.9 billion; U.S., $3.8 billion; U.S.S.R., $2.2 billion.

Source: U.S. Arms Control and Disarmament Agency, *World Military Expenditures, 1967-1976* (Washington, D.C.: U.S.G.P.O., 1978), table 7, pp. 157-160.

TABLE 6: Importers of Arms, 1967-1976

Major U.S. Arms Customers

Countries	Imports (billions)
South Vietnam	$7.9
Israel	4.8
Iran	3.8
South Korea	2.6
West Germany	2.5
Turkey	2.0
Taiwan	1.8
United Kingdom	1.4
Greece	1.3

Major Arms Customers of U.S.S.R.

Countries	Imports (billions)
North Vietnam	$2.5
Egypt	2.4
East Germany	2.2
Syria	2.0
Iraq	1.8
Poland	1.8
India	1.4
Czechoslovakia	1.3
Libya	1.0

Source: Ibid.

more opportunity for unusual financing arrangements that may involve implicit subsidies. This means that both the real international magnitude of the arms trade and the cost of armaments exports to the exporting countries may be somewhat overstated.

The importers of arms were mostly low-income countries, the so-called less developed countries. In 1976, less developed countries imported $9.8-billion worth of arms, while developed or high-income countries imported $3.5-billion worth. Arms imports were also larger relative to total imports (4.5 percent in 1976) for less developed countries than for developed countries (0.5 percent). This in part reflects the fact that the industrialized countries generally have major national armaments industries. The major arms customers of the United States for 1967-1976 are listed in Table 6, and they are led by Israel and what was South Vietnam. The bulk of arms exports in the 10-year period for both the United States and the U.S.S.R. went to less developed countries. The major arms customers of the U.S.S.R. are also listed in Table 6, and the leading countries are North Vietnam, Egypt, East Germany and Syria.

While arms exports were five percent of total United States trade in 1976, there were many product categories that were more important. Agricultural exports ($23.4 billion), chemicals ($10 billion), electrical machinery ($9 billion), and motor vehicles ($11 billion) were all larger than armaments exports ($5 billion). United States arms exports were also small relative to United States petroleum imports ($32 billion). A comparable import combination is coffee, meat and sugar—so that one might say that in 1976 the United States exported $5 billion of arms to acquire $5 billion of coffee, sugar and meat. The United States arms trade is not so small that it can be ignored, nor is it so large that the economy cannot adjust to a lower level of arms exports. For example, United States oil imports increased by $10 billion in 1977; real income grew about four percent that year.

The United States balance of payments has run substantial deficits on current account in recent years, and there has been weakness in the value of the dollar. There has been a tendency to attribute these phenomena to changes in the world oil market, but while OPEC oil prices and United States energy policy have been complicating factors, the principal reason for the deficits and the dollar weakness has been a higher rate of inflation in the United States than our principal trading partners have suffered. In the face of dollar weakness and balance of payments deficits, some have regarded United States arms exports as either a villain or panacea in United States international economic relationships. But in the overall perspective of United States balance of payments transactions, arms exports have too modest a position to be assigned either role. And on a worldwide basis, for both the United States and the U.S.S.R., arms exports have been declining in relative importance. Realistically, arms exports, whether to developed or less developed countries, should be viewed as tools in the pursuit of competing national interests. ■

TWO MONTHS IN REVIEW

A Current History chronology covering the most important events of March and April, 1979, to provide a day-by-day summary of world affairs.

INTERNATIONAL

Arab League

(See also *Middle East; Yemen*)

Apr. 30—Djibouti breaks diplomatic relations with Egypt; this brings to 17 the number of Arab League states that have joined the boycott against Egypt because she signed the Egyptian-Israeli peace treaty.

Arms Control

(See also *U.S., Foreign Policy*)

Apr. 23—The U.S. and the Soviet Union resume negotiations on the banning of military weapons, including antisatellite weapons, in space.

European Monetary System

Mar. 7—In Washington, D.C., the members of the European Monetary System (the Common Market countries except Great Britain) announce that a new system, linking currencies to stabilize them, will take effect March 8.

CENTO

(See *Pakistan*)

General Agreement on Tariffs and Trade (GATT)

Apr. 12—After 5 years of negotiation, the U.S. and more than 20 other nations sign the text of the Tokyo Round agreement; most developing nations boycott the signing, charging that the new treaty offers little to the world's poorer nations.

International Energy Agency

Mar. 2—In Paris, representatives of the 20 nations of the International Energy Agency (including the U.S.) agree to reduce their demand for oil on the world markets by 5 percent in 1979.

Middle East

Mar. 1—Israeli Prime Minister Menahem Begin confers with U.S. President Jimmy Carter in Washington, D.C.

Mar. 6—U.S. national security adviser Zbigniew Brzezinski arrives in Cairo to brief Egyptian President Anwar Sadat on President Carter's latest proposals for a Middle East peace.

Mar. 7—President Carter leaves for Cairo to confer with Egyptian President Sadat.

Mar. 8—Israeli Prime Minister Begin returns to Jerusalem and says that if Egypt accepts U.S. proposals that the Israeli Cabinet has already approved, a peace treaty can be signed.

In Beirut, Lebanon, Syrian President Hafez al-Assad says that an Egyptian-Israeli peace treaty will achieve "nothing because the state of war will continue to prevail in the area."

Mar. 10—In Jerusalem, President Carter says that difficult issues must still be resolved; earlier in the day President Carter addressed the Egyptian People's Assembly (Parliament), asking the Palestinians to "join in the negotiations on their future" and saying that the present peace initiative offers the Middle East "the only realistic prospects" for genuine peace.

Mar. 11—In letters to Arab heads of state made public today in Beirut, Palestine Liberation Organization (PLO) leader Yasir Arafat calls President Carter's trip to Egypt and Israel "a grave conspiracy against the rights of the Palestinian people and the Arab nation at large."

Mar. 13—President Carter confers with Egyptian President Sadat at the Cairo airport; Sadat accepts the latest U.S. proposals.

Mar. 14—President Carter returns to Washington.

The Israeli Cabinet approves the proposals worked out by President Carter, Begin and Sadat; diplomatic sources report that the proposals involve Israeli access to Sinai oil and a timetable for the exchange of ambassadors.

Egyptian Acting Foreign Minister Boutros Ghali implies that the U.S. will take a direct hand in negotiations between Egypt and Israel over Palestinian home rule on the West Bank of the Jordan River and the Gaza Strip.

Mar. 15—The Egyptian Cabinet approves a draft peace treaty with Israel.

Mar. 18—U.S. national security adviser Brzezinski leaves Riyadh, Saudi Arabia, without gaining Saudi support for the Egyptian-Israeli peace treaty.

Brzezinski leaves Amman, Jordan, after failing to persuade Jordanian King Hussein to support a peace treaty, and flies to Cairo to confer with President Sadat.

Mar. 19—In Washington, D.C., Israeli Defense Minister Ezer Weizman and U.S. officials disclose that after the Israeli-Egyptian peace treaty is signed, the U.S. will give Israel some \$2 billion in planes and armaments and \$3 billion in aid to cover the cost of Israel's withdrawal from the Sinai.

The Israeli Cabinet votes 15 to 2 to approve the terms of a draft peace treaty between Egypt and Israel.

Mar. 23—The Knesset approves the draft peace treaty between Egypt and Israel.

Secretary General of the Arab League Mahmoud Riad, a former Egyptian foreign minister, resigns his post, saying that the Egyptian-Israeli peace treaty will make his efforts at Arab unity impossible.

Mar. 26—In a ceremony televised from the White House lawn, Egyptian President Sadat and Israeli Prime Minister Begin sign a formal peace treaty; U.S. President Carter signs as a witness and says, "We have won at last, the first step of peace. . . ." Under the treaty, Israel will withdraw from the Sinai over a 3-year period; two-thirds of the withdrawals will take place within 9 months of ratification of the treaty. After 9 months, Israel and Egypt will establish normal relations. In addition, the treaty details security arrangements to monitor the accord. Israeli ships will have the same rights of passage through the Suez Canal as those of other countries; Israel will be allowed to buy Sinai oil from the fields being returned to Egypt; and within a month after the ratification of the documents, Egypt and Israel will negotiate to put into effect the Camp David agreements on Palestinian self-rule on the Jordan West Bank and the Gaza Strip.

In a memorandum, the U.S. pledges to supply Israel's oil needs for 15 years if the need arises.

Mar. 27—President Sadat and Prime Minister Begin address the U.S. Congress.

Foreign ministers of the Arab League begin a 3-day meeting in Baghdad to agree on common measures against the Egyptian-Israeli peace treaty and against Egypt.

In Cairo, an Egyptian Foreign Ministry spokesman announces that Egypt will no longer attend Arab League meetings or pay dues.

Mar. 28—In Washington, D.C., Egyptian President Sadat says that Egypt opposes the U.S. pledge to Israel: in the event of a treaty violation by Egypt, the U.S. has pledged "to take such remedial measures as it deems appropriate. . . ." The U.S. State Department says that Egypt refused a similar assurance.

Mar. 31—The foreign ministers of Arab League countries adopt resolutions calling for the severance of diplomatic and economic ties with Egypt.

Apr. 1—The Israeli Cabinet ratifies the Israeli-Egyptian peace treaty.

Apr. 3—Israeli Prime Minister Begin ends a 2-day visit to Cairo, announcing that the Israeli-Egyptian border will be opened May 27.

Apr. 4—Prime Minister Begin tells his Cabinet that a "hotline" telephone links Jerusalem and Cairo.

Apr. 16—Security guards at the Brussels airport thwart an attempt by Palestinian terrorists to take over an El Al Israeli airliner; the terrorists bomb the arrival area and injure 12 people.

Apr. 17—The Israeli government appoints Interior Minister Yosef Burg, considered a hard-line conservative, to negotiate with Egyptian officials about Palestinian self-rule on the West Bank of the Jordan River and the Gaza Strip.

Apr. 18—The Arab Monetary Fund suspends Egypt from membership.

Apr. 25—In Umm Khisheib in the Sinai Desert, Egyptian and Israeli representatives exchange ratification documents to put the Egyptian-Israeli peace treaty into effect.

Apr. 26—Israeli Defense Minister Weizman meets in Cairo at the start of a 3-day visit with Egyptian President Sadat to discuss the normalization of diplomatic relations and the Israeli withdrawal from the Sinai Peninsula.

Apr. 29—Israeli and Egyptian military negotiators meet in El Tasa, the Sinai, to discuss the details of the phased Israeli withdrawal from the Sinai Peninsula.

Organization of Petroleum Exporting Countries (OPEC)

(See also *Iran*)

Mar. 27—Meeting in Geneva, members of the Organization of Petroleum Exporting Countries vote to raise the base price of crude oil by 9 percent as of April 1. Libya, Venezuela, and Algeria announce a surcharge of $4 per barrel above the new price.

Mar. 28—Nigeria follows the March 27 lead of Algeria, Venezuela and Libya, announcing a $4-per-barrel surcharge on her oil over and above the general OPEC increase of 9 percent.

United Nations

(See also *China; Lebanon; Namibia; South Africa; Vietnam*)

Mar. 19—The 158-nation United Nations Law of the Sea Conference resumes its sessions in Geneva.

Mar. 22—The Security Council approves a resolution creating a 3-member commission to investigate Israeli settlements on the West Bank of the Jordan River.

Apr. 30—With the U.S., Great Britain and France abstaining, the Security Council votes 12 to 10 to condemn the recent elections in Rhodesia and asks its members to maintain sanctions against Rhodesia.

AFGHANISTAN

Mar. 19—Afghan radio accuses Iran of sending 7,000 soldiers disguised as refugees into Herat province last month in support of the Muslim terrorists.

Fighting is reported between Muslims and pro-government nationalists in Herat, the 3d largest city, and in Mazar-i-Sharif and the eastern provinces.

Mar. 23—In Washington, D.C., U.S. State Department spokesman Hodding Carter 3d warns the Soviet Union not to interfere in the fighting in Afghanistan.

Mar. 27—Foreign Minister Hafizullah Amin is named Prime Minister by the ruling pro-Soviet Revolutionary Council.

Apr. 11—Zia Nassaery, a spokesman for the Afghan Islamic and Nationalistic Revolution Council based in Peshawar, Pakistan, says that his rebel forces have inflicted heavy casualities on pro-Soviet government troops and that they control 95 percent of the city of Herat.

Apr. 12—In Washington, D.C., U.S. intelligence officials report that nearly 100 Soviet military advisers have been killed in the last month in fighting between government troops and guerrillas.

ALGERIA

Mar. 8—President Chadli Benjedid appoints Interior Minister Mohammed Benahmed Abdelghani as Prime Minister.

ANGOLA

(See *Namibia; South Africa*)

BANGLADESH

Apr. 15—President Ziaur Rahman shuffles his Cabinet; he names Shah Azizur Rahman as Prime Minister.

BELGIUM

Apr. 2—King Baudouin names Wilfried Martens, head of the Flemish division of the Social Christian party, as Prime Minister.

BOLIVIA

Mar. 16—Former President General Hugo Banzer Suárez unexpectedly returns to Bolivia to lead a nationalist front in the general elections scheduled for July 1.

BRAZIL

Mar. 15—General João Baptista de Oliveira Figueiredo is sworn in as President, succeeding Ernesto Geisel. He promises a return to democratic and more liberal government.

Apr. 23—In Brasília, 11,000 schoolteachers go on strike; they join hundreds of thousands of other striking workers who are demanding salary increases and protesting the nation's high inflation rate.

CAMBODIA

Apr. 5—Hanoi radio reports that President Heng Samrin's troops have captured the headquarters of former Prime Minister Pol Pot.

Apr. 14—Fighting continues along the Thai border be-

tween Cambodian government forces, supported by Vietnam, and troops loyal to Pol Pot.

CANADA

(See *U.S., Foreign Policy*)

CHAD

Mar. 6—Government officials report that more than 800 Muslims were killed in Moundou over the weekend, in fighting between Muslims and Christians and animist blacks.

Mar. 16—In Kano, Nigeria, President Félix Malloum and Prime Minister Hissen Habré agree to a cease-fire between their respective forces in the civil war. Malloum agrees to resign as President in one week. He will be replaced by National Liberation Front leader Goukoni Waddaye, a leader of the Libyan-backed rebels.

Mar. 20—In Paris, French President Valéry Giscard d'Estaing announces that French military forces are being withdrawn from Chad.

Mar. 23—A transitional 8-man provisional council, headed by Goukoni Waddaye, is installed. The council will remain in office until a new government is selected.

Mar. 24—Former President Malloum arrives in Lagos, Nigeria.

Apr. 9—In Paris, Jesuit missionaries report that in the last month at least 10,000 Muslims have been killed by various tribal groups in southern Chad.

Apr. 20—Libyan troops attack Muslim guerrilla bases in northern Chad in a dispute over the uranium-rich Aouzou Strip.

CHINA

(See also *U.S., Foreign Policy; Vietnam*)

Mar. 1—In Peking, the U.S. government opens its embassy for the 1st time in 30 years.

Mar. 4—Following the Chinese lead, *The New York Times* adopts the Pinyin alphabet system for transliteration of Chinese place names and personal names. The Wade-Giles system is abandoned.

Mar. 16—The government announces a complete withdrawal of all its troops from Vietnam.

Mar. 24—Governor of Hong Kong Sir Murray Maclehose arrives in Canton for the first official visit by a Hong Kong Governor to China since 1949.

Mar. 31—A spokesman for the Foreign Ministry accuses Vietnam of delaying the opening of peace negotiations between China and Vietnam.

An announcement in the *Peking Daily* forbids wall posters and the publication of any anti-Communist material.

Apr. 3—The New China News Agency reports that the government will not renew its 1950 treaty of friendship with the Soviet Union when it expires in 1980.

Apr. 18—In Hanoi, peace talks begin between Vietnamese and Chinese delegations on the disputed frontier area between the two countries.

Apr. 29—In Peking, U.N. Secretary General Kurt Waldheim arrives for talks with Chinese leaders on the border dispute between Vietnam and China.

ECUADOR

Apr. 30—Populist Concentration of Popular Forces leader Jaime Roldós Aguilera wins nearly 69 percent of the vote in yesterday's presidential election, the first in 11 years.

EGYPT

(See also *Intl, Middle East; Iran*)

Apr. 20—President Anwar Sadat receives the approval of 99.95 percent of Egyptians voting in a referendum to support the Egyptian-Israeli peace treaty.

Apr. 21—President Sadat dissolves Parliament and calls for elections on June 7.

Apr. 22—The Kuwaiti Cabinet votes to end diplomatic and economic relations with Egypt.

Apr. 23—Saudi Arabia breaks diplomatic and political relations with Egypt.

ETHIOPIA

(See *Morocco*)

FINLAND

Mar. 18—National parliamentary elections are held.

Mar. 20—Out of the 200 seats, the Conservative party wins 45 seats and the Social Democrats 52; the Center party, the Swedish People's party and the Liberal party win 51 seats among them.

FRANCE

(See also *Chad*)

Mar. 4—President Valéry Giscard d'Estaing returns from a visit with Mexican President José Lopéz Portillo.

Apr. 28—Following a 2-day visit in Moscow, President Giscard d'Estaing and Soviet President Leonid I. Brezhnev sign a Program for the Development of Cooperation Between France and the Soviet Union in the Interests of Détente and Peace.

GERMANY, WEST

(See also *Zaire*)

Mar. 5—The Christian Democratic party nominates Carl Carstens as its candidate for President.

Mar. 6—President Walter Scheel says that he will not seek reelection when his term expires in May.

GHANA

Mar. 13—The government of General Fred W. K. Akuff announces the conversion of the cedi to a new cedi at a rate of 7 new ₵'s to 10 old ₵'s.

GRENADA

Mar. 13—Opposition leader Maurice Bishop successfully stages a coup d'état while Prime Minister Sir Eric M. Gairy is in New York City; 1 person is reported killed.

Mar. 22—In Washington, D.C., the U.S. government establishes diplomatic relations with Bishop's new government.

Mar. 26—Bishop announces that Grenada will remain in the British Commonwealth.

GUATEMALA

Mar. 22—National leftist leader Manuel Colon Argueta is assassinated by unidentified gunmen in Guatemala City; a so-called Secret Anti-Communist Army, an extremist group made up of army and police members, has claimed responsibility for previous assassinations.

GUINEA

(See *Liberia*)

HUNGARY

Mar. 30—It is announced in London that a consortium of U.S. banks will lend Hungary $300 million for 7.5 years.

INDIA

Mar. 15—In New Delhi, Soviet Prime Minister Aleksei N. Kosygin ends a 6-day official visit.

Mar. 23—In Washington, D.C., the U.S. Nuclear Regulatory Commission approves the export of 18.5 tons of slightly enriched uranium for the Tarapur atomic power plant near Bombay.

Apr. 18—Prime Minister Morarji R. Desai returns from a 2-day visit with Pakistan President Ziaur Rahman; Desai announces new trade agreements with Pakistan.

IRAN

(See also *Afghanistan; U.S., Foreign Policy*)

Mar. 2—Deputy Prime Minister Abbas Amir Entezam says that his government was unaware that Americans were stationed at a secret electronic listening post near the Soviet border until the post was taken over by revolutionary soldiers.

Mar. 4—South African Consul General Alan Fraser is told to leave the country; the new government ends diplomatic relations with South Africa.

Mar. 5—In Geneva, the Swiss Cabinet votes not to freeze the assets of Shah Mohammed Riza Pahlevi and his family. The Swiss national bank discloses that $1.2 billion is currently on deposit in 25 leading Swiss banks for Iranian banks, companies and individuals.

Oil exports are officially resumed, ending a 69-day interruption.

Mar. 9—In Qum, Ayatollah Ruhollah Khomeini reportedly refuses to accept the resignation of Prime Minister Mehdi Bazargan, who is protesting closed trials and summary executions.

Mar. 12—In Teheran, for the fifth day thousands of women march to protest Khomeini's order that all women wear the chador, or veil; they also protest their lack of political rights.

Mar. 13—In Teheran, 11 men, including former office-holders under the Shah, are executed by firing squad for their political activities.

Mar. 16—Khomeini orders an end to all closed trials and summary executions.

Mar. 19—Fighting is reported in Sanandaj between Kurdish tribesmen and Iranian troops; the Kurds are attempting to attain regional autonomy.

Mar. 27—In Sanandaj, prisoners taken by the army are released as part of the cease-fire agreement reached yesterday between Kurds and the national government.

Mar. 28—In Teheran, the government gives its assurance that Turkomans and other ethnic groups will be given special attention in the nation's new constitution.

Mar. 30—The Shah of Iran leaves Morocco and flies to the Bahamas for an indefinite stay.

A 2-day national referendum begins on whether Iran will become an Islamic republic.

Apr. 1—In Teheran, Ayatollah Khomeini declares a landslide victory for an Islamic republic.

Apr. 2—The provisional government announces a cease-fire in the 8-day-old fighting between government troops and Turkomans.

Apr. 5—Ayatollah Khomeini orders the resumption of revolutionary trials.

Apr. 7—Former Prime Minister Abbas Hoveida is executed by firing squad.

Apr. 11—Eleven former government officials and military officers are executed by firing squad; 93 former officials have been executed since the February revolution.

Apr. 13—10 more former officials are executed.

Apr. 15—The government raises the price of oil by 13 percent over the level established by OPEC last month.

Foreign Minister Karim Sanjabi, leader of the National Front alliance, resigns from office to protest the ruthlessness of the komitehs (committees) of the Revolutionary Council.

Apr. 17—In Teheran, the Ayatollah Mahmoud Taleghani, Teheran's religious leader, warns Khomeini against the return of "dictatorship and despotism" in Iran. Last week, Taleghani's two sons and a daughter-in-law were detained briefly by the Islamic militia because of their leftist activity.

Thousands of protestors demonstrate near Teheran University against the arrests of Taleghani's family.

Apr. 19—Following a meeting in Qum with Ayatollah Khomeini, Ayatollah Taleghani goes on national television and radio and says he accepts Khomeini's leadership.

Apr. 22—In Azerbaijan province, fighting continues between government troops and members of the Kurdish Democratic Front; between 70 and 80 people are reported killed.

Apr. 23—In Teheran, Major General Vali Ullah Gharani, former army chief of staff, is assassinated by unidentified terrorists.

Apr. 24—In his first public speech in 3 weeks, Prime Minister Mehdi Bazargan denounces the actions of the Islamic komiehs.

Bazargan shuffles his Cabinet, appointing Deputy Prime Minister for Revolutionary Affairs Ibrahim Yazdi to the post of Foreign Minister.

Apr. 25—Ayatollah Mahdavi Khani, head of the revolutionary komitehs, announces that the komitehs will be purged and incorporated into the national police force.

Apr. 26—In Azerbaijan, Turks and Kurds exchange hostages when fighting between the two groups ceases; in the last five days, 1,000 people have been reported killed.

Apr. 28—A draft of the new constitution is published; it calls for a religious council of Shiite Muslims to oversee Parliament.

Apr. 30—Ayatollah Khomeini severs diplomatic relations with Egypt.

ISRAEL

(See also *Intl, Middle East; Lebanon*)

Apr. 15—4 Palestinian guerrillas, who crossed into northern Israel from Jordan, are shot and killed by Israeli troops; this is the 2d time in a month that a Palestinian attack has been launched from Jordan.

Apr. 22—The Cabinet approves the construction of 2 new Israeli settlements on the West Bank of the Jordan River; these are the first settlements approved since the Egyptian-Israeli peace treaty was signed in March.

Apr. 25—The Supreme Court rules that land belonging to Bedouins in the Negev desert may not be expropriated until local courts rule on the issue.

Apr. 29—The Cabinet votes to permit the death penalty for Palestinian guerrillas who commit acts of "inhuman cruelty."

Apr. 30—For the first time since Israel became a state in 1948, an Israeli cargo ship, the *Ashdod*, sails through the Suez Canal.

ITALY

Mar. 2—Leader of the Republican party Ugo La Malfa tells President Sandro Pertini that he is unable to form a coalition government.

Mar. 7—President Pertini asks acting Prime Minister Giulio Andreotti to try to form a government.

Mar. 20—Acting Prime Minister Andreotti forms a 3-party coalition government, made up of Christian Democrats, Republicans, and Social Democrats.

Mar. 21—Andreotti's new government is sworn in.

Mar. 29—Prime Minister Andreotti presents his Cabinet to Parliament.

Mar. 31—Andreotti's government is defeated in a confidence vote in the Senate by a vote of 150 to 149.

Andreotti resigns; President Pertini asks Andreotti to form a caretaker government.

Apr. 2—President Pertini dissolves Parliament; elections will be held in June.

Apr. 20—In Rome, a bomb explodes in the Palace of the Senators on the Capitoline Hill, damaging a building designed by Michelangelo; several terrorist groups claim responsibility for the bombing.

JAPAN

Apr. 16—For the first time in 5.5 years, the Bank of Japan raises its official discount rate to 4.25 percent from 3.5 percent.

Apr. 30—In Washington, D.C., Prime Minister Masayoshi Ohira arrives for discussions with U.S. President Jimmy Carter.

JORDAN

(See *Intl, Middle East*)

KUWAIT

(See *Egypt*)

LAOS

Mar. 22—Foreign Ministry official Soubanh Srithirath acknowledges that Vietnamese troops stationed in Laos used Laos as a base for their attack on Cambodia.

Mar. 24—Former Prime Minister Souvanna Phouma reports that between 10,000 and 15,000 civilian officials have been detained in the northern provinces since the Communists took power in 1975.

LEBANON

Mar. 3—In Beirut, nearly 1,200 Saudi members of the Arab peacekeeping force are withdrawn because of the recent fighting along Saudi Arabia's southern border in Yemen and Southern Yemen.

Apr. 11—Along the Lebanese-Israeli border, fighting breaks out between Palestinian guerrillas and Israeli troops.

Apr. 17—The government sends army troops to southern Lebanon; leader of the Christian militia forces Major Saad Haddad threatens to fire on Lebanese army troops if they enter the 6-mile border area under his control.

Apr. 18—Major Haddad declares the independence of a 6-mile area along the Israeli border.

Apr. 20—For the 6th consecutive day, Lebanese Christian militias attack the U.N. peacekeeping force headquarters in southern Lebanon.

Apr. 22—In northern Lebanon near Tripoli, Israeli ships fire on Palestinian guerrillas in retaliation for a guerrilla attack today on an apartment building in Israel in which 4 Israeli civilians died.

Apr. 26—In southern Lebanon, the U.N. peacekeeping force arranges an informal cease-fire between Israeli and Palestine Liberation Organization leaders.

LIBERIA

Apr. 14—Following Agriculture Minister Florence Cheneweth's proposal to raise the price of rice 50 percent, demonstrators clash with police outside the State House. Stores and offices are ransacked in Monrovia.

Apr. 17—Guinea sends troops to Monrovia to help maintain order.

LIBYA

(See also *Intl, Middle East; Chad; Uganda*)

Mar. 2—In Washington, D.C., the U.S. State Department approves the sale of 3 Boeing-747's to Libya.

MOROCCO

Mar. 9—The Moroccan government breaks diplomatic relations with Ethiopia and recalls her ambassador from Syria because of Ethiopian and Syrian support for the Polisario guerrilla movement in the Western Sahara.

NAMIBIA

Mar. 5—In Windhoek, the territorial constitutent assembly, primarily composed of Democratic Turnhalle Alliance members who favor dividing power in the territory, rejects U.N. Secretary General Kurt Waldheim's proposal for a March 15 cease-fire.

Mar. 6—South African troops and planes attack South-West Africa People's Organization (SWAPO) guerrilla camps in Angola.

Mar. 19—At the U.N., 2 days of talks on the future of Namibia begin with South African Foreign Minister Roelof F. Botha, a delegation from SWAPO, and representatives from Britain, Canada, France, West Germany, and the U.S.

NICARAGUA

Mar. 15—Sandinist National Liberation Front guerrillas attack 3 National Guard posts; 9 people are reported injured.

Mar. 16—The U.S. AFL-CIO begins a limited boycott of Nicaragua to protest the repression of Nicaraguan labor unions.

Apr. 15—The National Guard reportedly takes control of Esteli from Sandinist guerrillas who held the city for about a week.

Apr. 29—In León, intensive fighting breaks out between National Guard troops and Sandinist guerrillas; the fighting is reportedly the heaviest this year.

PAKISTAN

(See also *India; U.S., Foreign Policy*)

Mar. 12—Foreign Ministry adviser Agha Shahi announces that Pakistan has withdrawn from the Central Treaty Organization (CENTO).

Mar. 24—The Supreme Court dismisses a petition to review its decision to uphold the death sentence of former Prime Minister Zulfikar Ali Bhutto.

Apr. 4—In Rawalpindi, Zulfikar Ali Bhutto is hanged.

Apr. 5—Demonstrations throughout the country protest Bhutto's death. Hundreds of demonstrators are arrested.

Apr. 15—To protest Bhutto's hanging, the Pakistan National Alliance withdraws from the government.

Apr. 21—General Mohammed Zia ul-Haq forms a new government to run the country until general elections are held in November.

PERU

Apr. 19—General Juan Estrade announces that the magazines *El Tiempo* and *Unidad* will be allowed to resume publication on April 23.

PHILIPPINES

Apr. 2—President Ferdinand E. Marcos announces that

regional elections will be held in the southern Philippines on May 7.

PORTUGAL

Apr. 4—Half the members of the Social Democratic party resign from the party in a dispute over leadership. The dissidents will remain in the Assembly as independents.

RHODESIA

(See also *Intl, U.N.*)

Mar. 5—Co-Minister of Foreign Affairs Elliot Gabellah resigns from Reverend Ndabaningi Sithole's Zimbabwe African National Union in a disagreement over methods used to win support in the black townships and countryside.

Mar. 17—In Washington, D.C., U.S. Secretary of State Cyrus Vance calls for new talks between Prime Minister Ian Smith's government and the guerrilla coalition, the Patriotic Front, before the scheduled April 20 elections.

Mar. 26—Bishop Abel Muzorewa opposes any negotiations between the future government and guerrilla leaders.

Apr. 5—The transitional government announces that elections will be held 3 days earlier than planned; they will begin on April 17 and continue until April 21.

Apr. 9—In Dar es Salaam, a conference between leaders of the National Patriotic Front Robert Mugabe and Joshua Nkomo fails to negotiate an accord between the two wings of the alliance.

Apr. 13—In Lusaka, Rhodesian soldiers destroy Joshua Nkomo's home. Nkomo escapes injury; 10 people are reported killed and 12 are wounded.

Apr. 14—Rhodesian airplanes attack guerrilla bases in Zambia; 90 guerrillas are reported killed.

Apr. 17—Nationwide parliamentary elections are held.

Apr. 24—Official election returns give Bishop Abel Muzorewa and his United African National Council 67.3 percent of the vote and 51 seats in the 100-member Parliament; Muzorewa becomes Prime Minister-elect.
Sithole contests the election results.

Apr. 27—A Rhodesian official says that South Africa has offered Bishop Abel Muzorewa's government substantial military and economic assistance.

Apr. 28—Sithole announces that members of his Zimbabwe African National Union will not take their seats in Parliament unless an international commission is established to investigate alleged election irregularities.

ROMANIA

Mar. 30—Deputy Prime Minister and State Planning Board chairman Ilie Verdet replaces Manea Manescu as Prime Minister.

SAUDI ARABIA

(See *Intl, Middle East; Egypt; Lebanon*)

SEYCHELLES

Mar. 26—The government announces the adoption of a new constitution that provides for a one-party state; elections for the 23-member People's Assembly will be held in June.

SOUTH AFRICA

(See also *Iran; Namibia; Rhodesia*)

Mar. 10—In Johannesburg, the *Rand Daily Mail* reports that former Information Minister Eschel M. Rhoodie claims that in 1974 he received permission from President John Vorster, then Prime Minister, to carry out "a propaganda war in which no rules or regulations would count."

Mar. 16—Prime Minister P.W. Botha announces that an arrest warrant has been issued for Rhoodie, now living in Europe.

Mar. 21—In an interview with the British Broadcasting Corporation, Rhoodie says that U.S. political candidates were bribed to express pro-South African views.

Mar. 22—President John Vorster denies that he approved secret plans in which money was used "irregularly."

Mar. 28—In the U.N., the Security Council votes 12 to 0 to condemn South Africa for "premeditated, persistent and sustained armed invasions" of Angola.

Apr. 6—Former Cabinet member Cornelius P. Mulder is expelled from the ruling National party because of his role in the government scandal.

Apr. 12—In Pretoria, Botha orders 3 U.S. embassy officials expelled because they were involved in aerial spying on South African military installations.

Apr. 13—In Washington, D.C., in retaliation for yesterday's expulsion of U.S. embassy personnel, the U.S. government orders 2 South African military attachés to leave the country.

SOUTHERN YEMEN

(See *Yemen*)

SPAIN

Mar. 1—The first national parliamentary elections are held under the new democratic constitution.

Mar. 2—Election returns give Prime Minister Adolfo Suárez's Union of the Democratic Center 167 of the 350 seats in the Chamber of Deputies and 119 of the 208 seats in the Senate.

Mar. 5—Brigadier General Agustin Muñoz Vázquez is assassinated in Madrid; 30 people have been killed in political violence in 1979.

Mar. 30—Prime Minister Suárez wins a vote of confidence in the Parliament, 183 to 149.

Apr. 3—For the first time in 46 years, nationwide municipal elections are held.

Apr. 4—Election returns give the Union of the Democratic Center 31 percent of the popular vote, the Socialists, 29 percent and the Communist party, 13 percent.

Apr. 6—Prime Minister Suárez's 24-member Cabinet is sworn in.

SYRIA

(See *Intl, Middle East; Morocco; U.S.S.R.*)

TAIWAN

(See *U.S., Foreign Policy*)

TANZANIA

(See *Uganda*)

THAILAND

(See also *U.S., Military*)

Apr. 21—National elections are held for the House of Representatives; in the campaigning, 2 candidates and 13 campaign workers were killed.

Apr. 23—Election returns give Prime Minister Kriangsak Chomanan's coalition a majority of seats in the lower house. The opposition party led by former Prime Minister Kukrit Pramoj, the Social Action party, wins 82 seats and the Democrat party, led by Seni Pramoj, wins 32. The 255-member Senate and the lower house will select the new Prime Minister.

TURKEY

(See also *U.S., Foreign Policy*)

Mar. 10—In a nationwide television address, supreme religious leader Lufti Dogan urges an end to the fighting between Islamic sects.

Mar. 16—The government issues an economic program that includes price increases of up to 100 percent on petroleum, voluntary wage controls, tax reforms, and cuts in government spending.

Apr. 23—3 members of Prime Minister Bulent Ecevit's Republican party resign in protest over the handling of the recent disturbances between Kurds and Turks.

UGANDA

Mar. 4—Tanzanian troops are reported 50 miles outside Kampala; they have taken the major cities of Masaka and Mbarara.

Mar. 7—The Libyan government sends military equipment to President Idi Amin in preparation for a massive Ugandan counterattack against Tanzanian forces.

Mar. 25—The government orders a country-wide curfew, closes the international airport at Entebbe, and imposes an electric power blackout.

In northern Tanzania, Ugandan exiles announce the formation of the Uganda National Liberation Front as the government in exile for Uganda.

Mar. 27—In Nairobi, Tanzanian President Julius Nyerere says that Libya has threatened to declare war on Tanzania if she does not immediately withdraw her troops from Uganda.

Mar. 28—Fighting between Tanzanian troops, including Ugandan exiles, and Ugandan troops is reported in Kampala.

Apr. 1—Tanzanian jets bomb the international airport at Entebbe; this is the first time Tanzanian planes have bombed Ugandan territory.

Apr. 5—Following the Tanzanian capture of Entebbe airport, Libyan troops allied with President Idi Amin evacuate Kampala.

Apr. 11—With the fall of Kampala, Yusufu K. Lule announces from Dar es Salaam that he will head the provisional Ugandan government; in addition, he will assume the posts of Minister of Defense and Commander in Chief of the Armed Forces.

In Kampala, Tanzanian troops and Ugandan exiles are greeted enthusiastically by Ugandan civilians.

Apr. 13—In Kampala, Lule is sworn in as President.

Deposed President Amin is believed to have fled to northern Uganda.

Apr. 16—In Washington, D.C., the State Department announces that it will reopen its embassy in Kampala.

Apr. 22—Tanzanian troops meet little resistance as they move into Jinja, the 2d largest city in Uganda.

Amin is reported to have fled to Iraq.

U.S.S.R.

(See also *Intl, Arms Control; Afghanistan; France; India; U.S., Foreign Policy*)

Mar. 4—Elections for the Supreme Soviet are held; there is no contest for any seat.

Mar. 6—U.S.-Soviet trade for 1978 is reported at $2.8 billion; the U.S. had a surplus of $1.72 billion.

Mar. 25—In Damascus, Syria, Foreign Minister Andrei Gromyko completes a 2d day of talks with Syrian leaders on the Egyptian-Israeli peace agreement.

Apr. 18—The Supreme Soviet reelects Leonid I. Brezhnev as President.

UNITED KINGDOM

Great Britain

Mar. 6—Leaders of the municipal workers union accept a 9 percent wage increase.

Mar. 22—In the Hague, British Ambassador to the Netherlands Sir Richard Sykes and his footman, Karel Straub, are shot to death.

Mar. 28—In a vote of confidence in Parliament, the government of Prime Minister James Callaghan is defeated 311 to 310. Following the inconclusive vote on home rule in Scotland, the Scottish Nationalists withdrew their support of the Callaghan government.

Mar. 29—Callaghan submits his resignation to Queen Elizabeth II. New elections will be held May 3.

Mar. 30—In Parliament Yard, member of Parliament Airey M.S. Neave is killed when a bomb explodes in his car. Two separate factions of the Irish Republican Army claim responsibility for his death.

Apr. 1—The navy completes its withdrawal from Malta.

Scotland

Mar. 2—Complete returns from yesterday's referendum on home rule show that although 52 percent of those who voted approved the plan, only 66 percent of all registered voters voted. The plan was therefore defeated, because Parliament required the approval of 40 percent of all registered voters.

Wales

Mar. 2—Voters in yesterday's referendum on home rule overwhelmingly reject the proposal.

UNITED STATES

Administration

(See also *Nuclear Accident*)

Mar. 1—The Environmental Protection Agency orders an emergency ban on almost all use of the herbicides 2,4,5-T and Silvex; these herbicides contain small quantities of dioxin, a defoliant, which increases the danger of miscarriages and birth defects in those exposed to it.

Mar. 13—The Nuclear Regulatory Commission (NRC) orders the shutdown within 48 hours of 5 nuclear-powered electric generating plants because of uncertainty over the ability of piping in the plants' cooling systems to withstand earthquake shock.

Acting Assistant Energy Secretary John Deutch, chairman of a special committee to formulate long-term policy for the disposal of nuclear wastes, reports to President Jimmy Carter that the safe disposal of atomic wastes can be determined only on an individual plant basis.

Mar. 16—The Federal Aviation Administration announces plans to strengthen its air safety rules.

Mar. 20—Attorney General Griffin Bell appoints former U.S. Attorney Paul J. Curran as special counsel to conduct an investigation "into the various loan transactions between the National Bank of Georgia and the Carter Warehouse," which involve some $7 million.

Mar. 22—In U.S. district court in Manhattan, N.Y., the Justice Department moves for the dismissal of the 1957 indictments of conspiracy to spy for the Soviet Union against Alfred and Martha Stern; the Sterns have been living abroad since 1957.

Mar. 23—Attorney General Griffin Bell says that special counsel Paul Curran will have the power of a special prosecutor to seek "indictments of suspects . . . or immunity for witnesses."

In Washington, D.C., U.S. district court Judge Barrington Parker sentences 2 men to life imprisonment and 1 man to eight years in prison for the murder of former Chilean Ambassador to the U.S. Orlando Letelier and his aide Rònni Moffitt on September 21, 1976, in Washington, D.C.

Mar. 25—In a speech in Dallas, Texas, President Jimmy Carter outlines his proposals "to reduce, rationalize and streamline the regulatory burden throughout American life."

Mar. 26—In letters to the House and Senate Judiciary Committees, Attorney General Griffin Bell says that he plans to approve the admission of 60,000 more refugees from the Soviet Union and Indochina in the next 6 months.

Apr. 5—In a televised address to the nation, President Carter outlines a complex energy plan that includes slowly lifting price controls on domestic oil, thus raising U.S. gas and oil prices, and asking Congress for a tax on the consequent "windfall profits" for oil companies.

Apr. 10—In a Washington, D.C., news conference about bank loans to the Carter Warehouse, President Carter says that he has "never known nor do I now know of any illegal actions taken. . . ."

Apr. 16—The Department of Energy announces a policy of policing gasoline prices, beginning in New York City.

Apr. 17—The Advisory Committee on Reactor Safeguards recommends a new series of regulations and instruments to be installed in over half the nation's nuclear reactors.

Apr. 25—During a trip to New Hampshire cities, President Carter warns of gas shortages in the coming summer, increasing inflation for the next few months and the need for a standby gasoline rationing plan. He says that he has directed the Department of Energy to insure the build-up of home heating oil from 110 million barrels to 240 million barrels by October.

NRC director of reactor regulations Harold Denton and the staff of the commission recommend that all nuclear power plants relying on Babcock & Wilcox reactors of the type used at Three Mile Island be shut down until their safety can be assured; the commission delays acting on the recommendation.

Apr. 27—The NRC agrees to a staff proposal for the temporary shutdown of all but 2 of the Babcock & Wilcox-powered nuclear generating plants while new safety regulations and equipment are installed; 2 generators are left operating to avert power shortages in some southern states.

Civil Rights

Mar. 26—In Milwaukee, Wisconsin, acting after his suggestion for an out-of-court settlement was refused, U.S. district court Judge Robert Warren grants the Justice Department a preliminary injunction that will prevent *The Progressive* magazine from publishing an article by Howard Morland on the hydrogen bomb. Warren is the first federal judge to issue an injunction imposing "prior restraint" on the press. He bases his ruling on the restricted data sections of the 1954 Atomic Energy Act.

Economy

Mar. 1—The Commerce Department reports that its index of leading economic indicators fell 1.2 percent in January.

Mar. 2—The Energy Department announces a new ruling that will permit the price of gasoline at the consumer level to rise by 4.9 cents per gallon this year and by 5.1 cents next year.

Mar. 8—The Labor Department reports that the nation's unemployment rate fell to 5.7 percent in February.

The Labor Department reports that the index of producer prices rose 1 percent in February.

Mar. 20—The Commerce Department reports that corporate profits rose by 26 percent in 1978, with a 7 percent rise in the gross national product (GNP) in the 4th quarter.

Mar. 23—The Department of Labor reports that its consumer price index rose by 1.2 percent in February, the highest rate of increase in 4.5 years.

Mar. 28—The Commerce Department reports that the U.S. trade deficit was reduced to $1.3 billion in February.

Mar. 30—The Commerce Department reports that its index of leading economic indicators declined by 0.9 percent in February.

Apr. 5—The Labor Department reports that according to its producer price index producer prices rose 1 percent in March.

Apr. 6—The Labor Department reports that the unemployment rate for March was 5.7 percent.

Apr. 19—The Commerce Department reports that the gross national product (GNP) rose by only 0.7 percent in the 1st quarter of 1979.

Apr. 26—The Labor Department reports that its consumer price index rose 1 percent in March and increased during the 1st quarter of 1979 at an annual rate of 13 percent.

Apr. 27—The Commerce Department reports a U.S. trade deficit of $821.3 million in March, the smallest deficit in almost 2 years.

Apr. 30—The Commerce Department reports that its index of leading economic indicators dropped 0.5 percent in March.

Foreign Policy

(See also *Intl, Arms Control, Middle East; China; Grenada; India; Libya; Rhodesia; South Africa; Uganda*)

Mar. 2—Treasury Secretary W. Michael Blumenthal and Chinese Foreign Minister Chang Ching-fu initial an agreement in Peking to compensate U.S. corporations for $196.6 million worth of property seized by the Chinese after the Communist takeover in 1949; the U.S. will unlock Chinese nationals' assets that were frozen in the U.S. when China entered the Korean War in 1950.

Defense Department officials in Washington, D.C., admit that maintenance manuals for F-14 jet fighters and their Phoenix missile system could have fallen into unfriendly hands when Americans were evacuated from Iranian airfields.

Mar. 9—White House officials report that President Jimmy Carter informed Congress today that he is invoking the emergency provisions of the 1976 Arms Export Control Act to bypass Congress and approve a military-aid plan that will allow the export of $390 million in armaments, including F-5 fighters and tanks, to Yemen in the next 2 weeks.

Mar. 13—The Senate and the House approve bills to enable the U.S. to maintain unofficial relations with Taiwan and give diplomatic recognition to China at the same time; the bills go to Senate-House conference.

Mar. 29—In Washington, D.C., Secretary of State Cyrus Vance and Canada's Ambassador to Washington Peter M. Towe sign four agreements to end the "fishing war" and settle other fishing and maritime disputes between the U.S. and Canada.

Apr. 5—A spokesman for the Commerce Department confirms the fact that the U.S. has approved an export license for the sale of a U.S. computer system to the

U.S.S.R., reversing a 1978 presidential decision. No reason for the reversal is given.

Apr. 6—The U.S. cuts off economic and military aid to Pakistan, because of U.S. intelligence information that Pakistan is building a plant to produce weapons-grade enriched plutonium.

Apr. 10—President Carter says he will ask Congress for $150-million worth of emergency economic and military aid for Turkey because of Turkey's domestic problems.

Apr. 17—President Carter's coordinator for refugee affairs Dick Clark says the U.S. will allow 7,000 Indochinese refugees to enter the U.S. monthly through September, 1980.

Apr. 21—The American Institute in Taiwan, which will conduct unofficial relations with Taiwan, names retired Foreign Service official Charles T. Cross to head its Taiwan office.

Apr. 24—Presidential special trade representative Robert S. Strauss is appointed by President Carter as ambassador-at-large for Middle East negotiations; Strauss expects to assume the new post around Labor Day.

Apr. 27—As the result of prolonged Soviet-U.S. diplomatic negotiations, 5 Soviet dissidents including human rights activist Aleksandr Ginsburg are freed from Soviet prison, flown to New York and exchanged for 2 convicted Soviet spies serving 50-year sentences in the U.S.

Apr. 30—President Carter says the Soviet Union will adhere to a new SALT II agreement because the U.S. could repudiate the entire treaty with "very severe" consequences.

Labor and Industry

Apr. 1—The International Brotherhood of Teamsters strikes selected companies across the nation after rejecting an industry contract offer; some 500 trucking companies call for a "defensive shutdown" that the union calls a lockout.

Apr. 3—The International Air Transport Association agrees on 7 percent raises in passenger and cargo rates because of rising fuel costs.

Apr. 10—The International Brotherhood of Teamsters and Trucking Management, Inc., negotiating organ for the industry, reach agreement on a 3-year contract; the 300,000 teamsters must ratify the contract.

Apr. 24—Sears, Roebuck & Company, which brought suit in Washington, D.C., U.S. district court January 24 against 10 federal agencies in disputes over minority employment, charges "a campaign of harassment . . ." by the Office of Federal Contract Compliance Programs; the company says that ". . . beginning immediately" and for an indefinite time, it will neither bid on government contracts nor accept them.

Apr. 27—After a personal phone call from President Carter to Sears, Roebuck & Company chairman Edward Telling, Sears agrees to reduce some prices to stay within the President's price guidelines.

Legislation

(See also *Foreign Policy*)

Mar. 8—By a voice vote, the Senate postpones for 4 years the enforcement of its rule limiting to 15 percent of his salary the amount of outside income a senator may earn; this means that a senator may earn up to $25,000 a year in addition to his salary; since January 1, 1979, a senator could earn only $8,625 in addition to his salary.

Mar. 19—The proceedings of the House are broadcast live on television for the first time.

Mar. 20—After a 10-month investigation, the Senate Ethics Committee concludes that former Senator Edward Brooke (R., Mass.) committed only minor violations of congressional conduct regulations.

Mar. 28—In a 54 to 44 roll-call vote, the Senate reaffirms its voice vote of March 8 with regard to the limit of outside income its members may earn.

Mar. 29—The General Accounting Office, investigative arm of Congress, reports that mismanagement and mistakes made by the Federal Railroad Administration, Amtrak and a private contractor have added more than $1 billion to the estimated costs of improving the Northeast rail corridor.

Apr. 2—The Senate and the House of Representatives approve an increase in the temporary federal debt ceiling to $830 billion from $798 billion; on April 1, the debt ceiling dropped to its permanent level of $400 billion, threatening a default crisis for the federal government.

Apr. 26—President Jimmy Carter sends his proposal for a "windfall" profits tax on oil to Congress.

Apr. 29—White House sources report that President Jimmy Carter has proposed new legislation to Congress that would permit the CIA to undertake some small covert operations without prior presidential approval.

Military

Mar. 5—The Defense Department notifies Congress that it plans to sell Thailand 18 F-5E and F-F fighter planes worth almost $100 million.

Nuclear Plant Accident

(See also *Administration*)

Mar. 28—The failure of a valve in a pump in the cooling system of the Three Mile Island Nuclear Power Plant near Middletown, Pennsylvania, causes the release of above-normal levels of radiation into the area around the plant. Some 60 employees are contaminated but need no hospitalization. The nuclear unit in question has been in operation for only 3 months; the plant is operated by a number of private utility companies acting as Metropolitan Edison.

Mar. 30—The Nuclear Regulatory Commission (NRC) tells Congress that there is a risk of a reactor core meltdown at the Three Mile Island atomic power plant because of the formation of a hydrogen gas bubble atop the reactor's core vessel that prevents proper cooling; a core meltdown would release dangerous amounts of radioactive materials.

Pennsylvania Governor Dick Thornburgh advises the evacuation of young children and pregnant women from a 5-mile area around the plant.

Mar. 31—NRC officials report that the hydrogen gas bubble in the nuclear reactor at Three Mile Island has been reduced in size and that the plant is cooling down.

Apr. 1—President Jimmy Carter visits the Three Mile Island nuclear power plant; civil defense directors in Pennsylvania are planning possible emergency evacuation of nearly 300,000 people from a 25-mile radius around the plant.

Apr. 2—NRC operations chief Harold Denton reports "a dramatic decrease in bubble size" in the last 24 hours in the reactor at Three Mile Island.

Apr. 4—A federal investigative panel tells the NRC that six separate incidents made the accident at Three Mile Island so serious; these included human error, design deficiencies and mechanical failures.

Apr. 9—Harold Denton declares that the crisis at the Three Mile Island nuclear power plant is over; Pennsylvania Governor Thornburgh declares the 5-mile area around

the plant safe; pregnant women and small children can return home.

In a letter to Nuclear Regulatory Commission chairman Joseph Hendrie, the federal Advisory Committee on Reactor Safeguards says that 43 of the nation's 73 nuclear power reactors would have difficulty controlling accidents similar to the accident at Three Mile Island.

Apr. 11—President Carter names 11 persons as members of a presidential commission to investigate the Three Mile Island nuclear accident; the commission will work with a $1-million budget.

Apr. 13—The NRC authorizes Metropolitan Edison to begin shutting down the Three Mile Island nuclear power plant.

Political Scandal

Apr. 1—In Monroe, Louisiana, U.S. district court, former Representative Otto Passman (D., La.) is found not guilty of accepting illegal payments from South Korean Tongsun Park.

Politics

Mar. 12—Senator Lowell P. Weicker, Jr. (R., Ct.), announces his candidacy for the presidency on the Republican ticket.

Apr. 21—Former President Gerald R. Ford declares that he "has no plans to be a candidate" for the Republican presidential nomination in 1980 but "would not duck the responsibility" of being his party's candidate if the party does not reach agreement on a candidate by the spring of 1979.

Supreme Court

Mar. 5—In a 6-3 decision, the Supreme Court holds unconstitutional an Alabama law requiring husbands and not wives to pay alimony; the decision appears to invalidate laws in 10 other states.

In a 6-3 decision (*Nevada v. Hall*), the Court upholds a California state court ruling that a California family injured in an accident with a car driven by a Nevada state employee can sue the state of Nevada in California court and collect damages, although the state of Nevada claims sovereign immunity.

Mar. 26—The Supreme Court refuses to hear the NAACP's appeal on behalf of John Spenkelink; Spenkelink is under a death sentence in Florida.

Mar. 27—In an 8-1 decision, the Court rules that it is unconstitutional for police to stop a motorist for a spot check of license and registration unless there is reason to believe there has been a violation of the law.

Apr. 2—The Court rules 6 to 3 that the Federal Communications Commission has no authority to force cable television to accommodate on a "first-come, first-served" basis anyone who wants to use its facilities. The FCC cannot force cable television systems to allow local government, educational and community groups to have free or low-cost access to cable facilities.

Apr. 17—The Court rules 7 to 2 that under the Fair Housing Act a town and its residents can sue a realtor if they believe the realtor is illegally trying to disturb the racial balance of an integrated neighborhood.

Apr. 18—The Court rules 6 to 3 that in a libel suit a journalist defending his work may be required to disclose his opinions and his reasons for preparing specific news stories. The decision, *Herbert v. Lando*, involves a CBS television producer.

In 3 separate decisions, the Court rules that there is no constitutional barrier that would prevent federal agents from breaking and entering to install otherwise legal electronic bugging devices; authority for this action is granted in the Omnibus Crime Control Act of 1968.

Apr. 30—In a unanimous decision, the Supreme Court rules that unless there is "clear and convincing" evidence that a person is mentally ill and likely to be dangerous, he cannot be committed to a mental institution; some 20 states permit committal where there is a "preponderance of evidence."

VENEZUELA

Mar. 12—Luis Herrera Campíns is sworn in as President; he succeeds Carlos Andrés Pérez.

VIETNAM

(See also *China; Laos*)

Mar. 2—A Foreign Ministry spokesman says the government is willing to negotiate a peace settlement with China once Chinese forces are withdrawn from Vietnam.

Mar. 3—Chinese forces reportedly capture Lang Son, a town 85 miles northeast of Hanoi.

Mar. 6—In Bangkok, Deputy High Commissioner of the U.N. High Commission for Refugees announces that the Vietnamese government has agreed to cooperate with plans for the legal emigration of Vietnamese to countries willing to accept them.

Mar. 16—China announces that all her troops have been withdrawn from Vietnam.

Mar. 22—A Foreign Ministry spokesman says that Chinese troops still occupy 18 areas in Vietnam.

Apr. 26—U.N. Secretary General Kurt Waldheim arrives in Hanoi in an attempt to negotiate a settlement between Vietnam and China over the disputed territory along their mutual border.

YEMEN

(See also *U.S., Foreign Policy*)

Mar. 2—A cease-fire negotiated by the Arab League goes into effect between Yemen and Southern Yemen; fighting between the two countries began on February 23.

Mar. 5—Foreign Ministers of the Arab League, meeting for the 2d day in Kuwait, call for the mutual withdrawal of Yemen and South Yemen military forces from the border area and the stationing of military observers along the border.

Despite the cease-fire, fighting is reported in the border area.

Mar. 11—In Washington, D.C., U.S. President Jimmy Carter orders the delivery of nearly $400 million in arms to Yemen.

Mar. 16—Chief of Staff of Southern Yemen Lieutenant Colonel Saleh Abu Bak Husseinoon arrives in Sana, Yemen, for peace talks with Yemeni leaders to end the fighting that began in February.

Mar. 21—President Ali Abdullah Saleh shuffles his Cabinet; he appoints a new Foreign Affairs Minister, Finance Minister and Interior Minister.

Mar. 30—President Ali Abdullah Saleh of Yemen and President Abdel Fatah Ismail of Southern Yemen issue a statement saying that their two countries will begin negotiations for unification.

ZAIRE

Apr. 27—The government orders a German rocket company (Otrag) to terminate all firing of experimental rockets and rocket-launching activities.

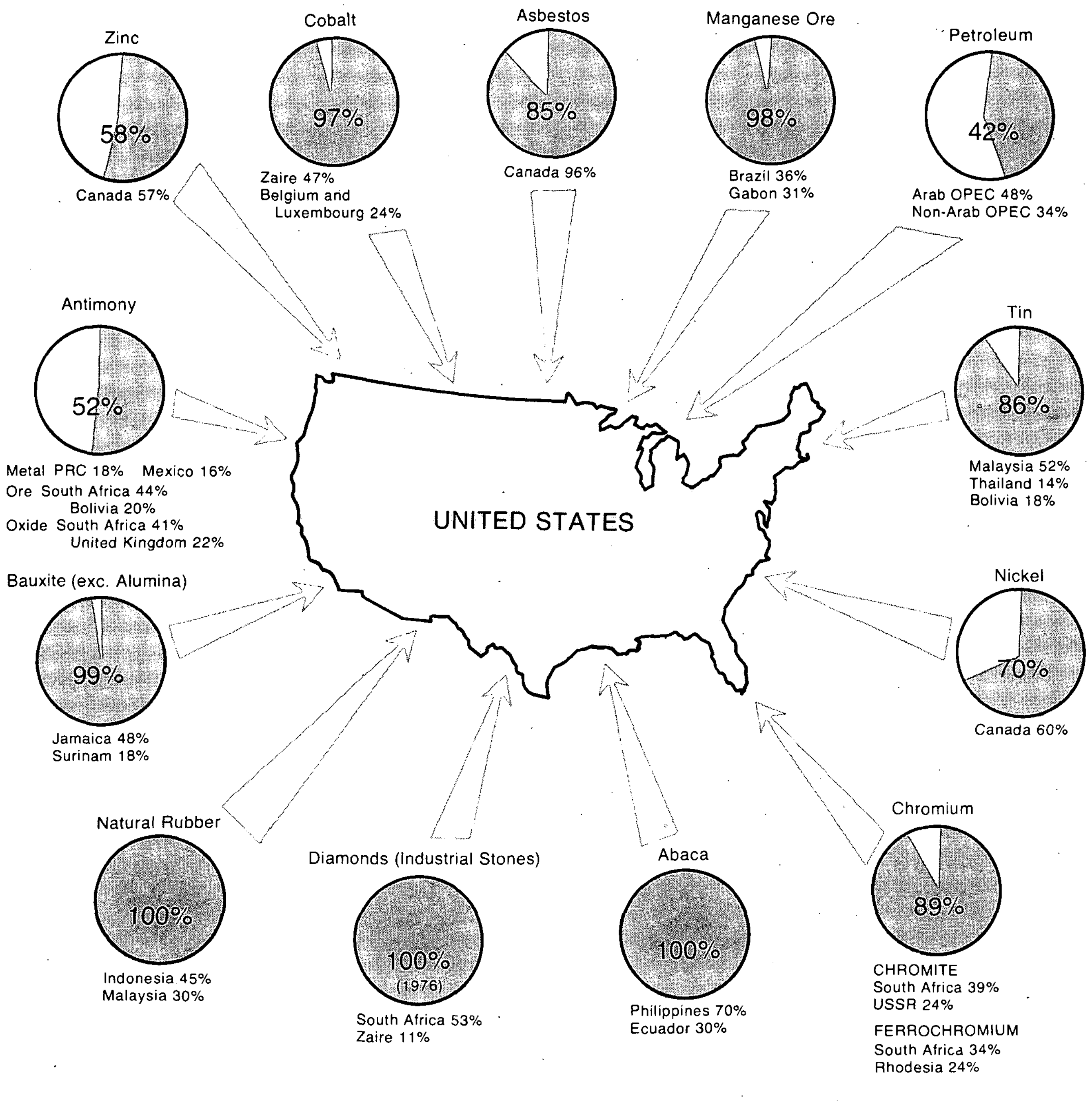
ZAMBIA

(See *Rhodesia*)

■

U. S. Import Dependence: Commodities and Sources

(1977 estimates except where noted.)



Figures within the circles represent total U.S. imports. Figures outside the circles indicate principal foreign suppliers and the percentage they comprise. For example, the U.S. imports 85% of its asbestos; 96% of that comes from Canada and 4% comes from other foreign sources.

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